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ABSTRACT

The current situation regarding training Massachusetts' workers for the new economy was reviewed. Special attention was paid to the following topics: Massachusetts and the skill-centered economy; opportunities for workforce system reform; skills demanded in the new economy; ways other states are building workers' skills; and the fragile setting for system building. Among the review's main findings were the following: (1) the income gap between high-end professional/technical workers and less-skilled workers is increasing; (2) businesses' competitive advantages are eroding because critical positions are going unfilled; (3) the current boom cannot be sustained without adequate supplies of skilled labor; and (4) Massachusetts's weak suit (compared with that of other states) is providing skill-building opportunities for lower-middle-class and working-class adults. The following seven recommendations for improving the state's work force development system were formulated: (1) focus on measurable performance outcomes, and hold elements of the system accountable for results; (2) encourage business and labor support, and invite business and labor pressure; (3) build the nation's best work force information system; (4) build a work force development system that provides training opportunities to a broad spectrum of workers, not just the unemployed; (5) take consolidation and customer choice seriously but gradually; (6) fund the workforce development system at a level that reflects its growing importance to the state's shared prosperity; and (7) Provide the

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bipartisan leadership vital to the effort's success. (Includes 13 tables and figures.) (MN)

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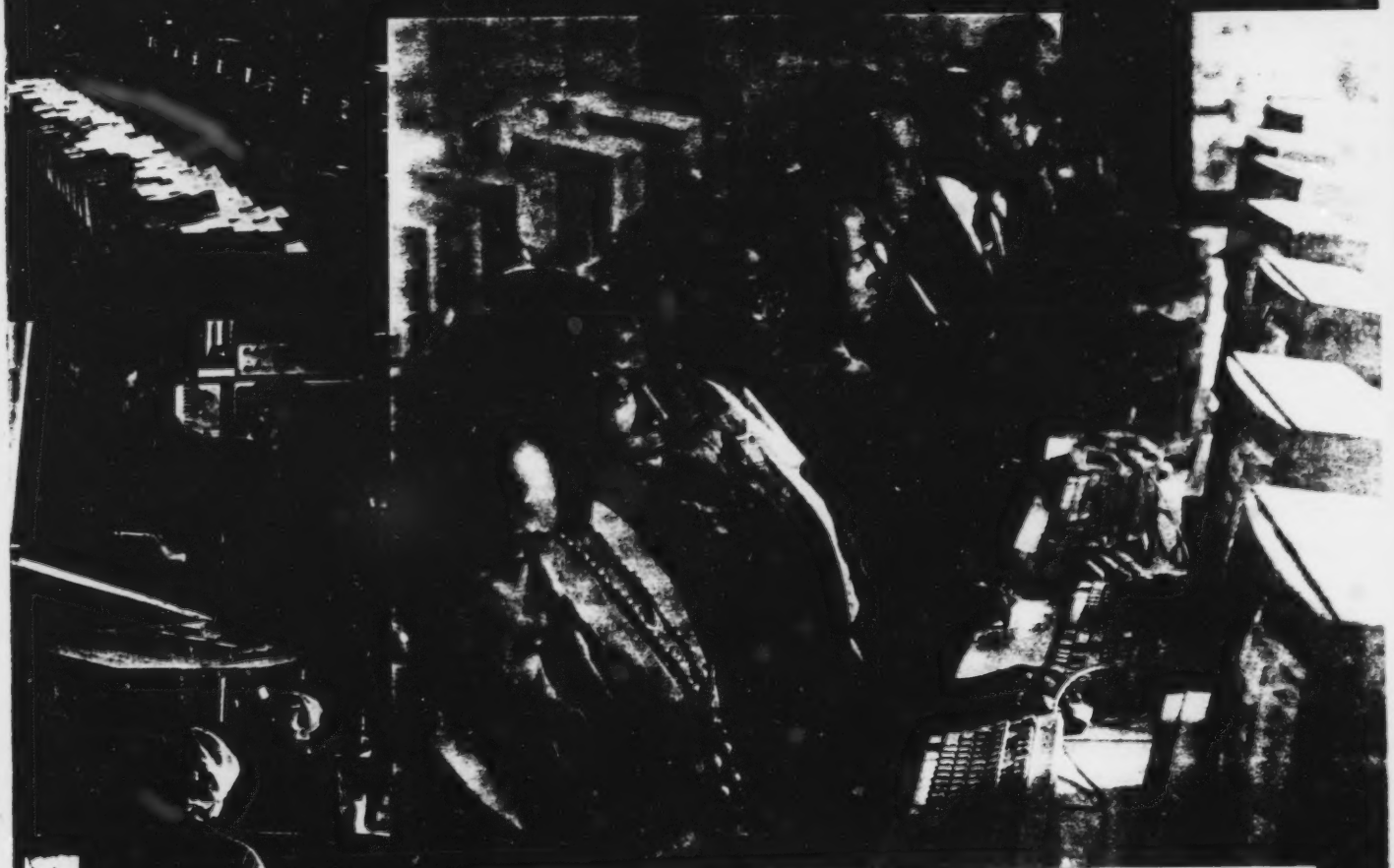
Opportunity Knocks

Training the Commonwealth's Workers for the New Economy



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A Joint Project of:

Mellon
Mellon New England

MassINC
The Massachusetts Institute for a New Commonwealth
Lifelong Learning Initiative

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We at MassINC wish to express our gratitude to our friends at Mellon New England for their enthusiastic support of this project. They have been spirited participants in every phase of the report's preparation and design. We have enjoyed working with such good corporate citizens.

MassINC also wishes to express its thanks to those individuals and organizations whose financial support makes our work possible. Your generosity is deeply appreciated.

About MassINC

The Massachusetts Institute for a New Commonwealth, MassINC, is a nonpartisan, independent organization whose mission is to foster the growth of a new commonwealth in Massachusetts in which all citizens can live the American Dream. The Institute divides its work into four *Initiatives* focused on:

- *Economic Opportunity*
- *Lifelong Learning*
- *Safe Communities*
- *Civic Engagement*

Within each of these *Initiatives* MassINC uses a combination of research, journalism (our *CommonWealth* magazine), and civic education projects to develop and promote practical and innovative ideas that result in a growing middle class.

MassINC's work is published for educational purposes. Views expressed in the Institute's publications are those of the authors and not necessarily those of MassINC's directors, staff, sponsors, or other advisors. The work should not be construed as an attempt to influence any election or legislative action.

MassINC is a 501(c)3, tax exempt, charitable organization that accepts contributions from individuals, corporations, other organizations, and foundations.

About MassINC's Lifelong Learning Initiative

Our Lifelong Learning Initiative bears witness to a simple truth: Nothing is more central to the future prosperity of our citizens than education and training. A quality education and effective job training can put the American Dream within reach of almost every citizen. A lack of education and training often divides those who are succeeding in our economy from those who are not.

Through the Lifelong Learning Initiative we work to ensure that every citizen has the tools to succeed in today's dynamic, technology-driven economy. MassINC believes in a continuum approach to learning, and that approach is reflected in the threefold emphasis of our Lifelong Learning Initiative: (1) Ensuring that the state's pre-K and K-12 Education Reform effort stays on track; (2) transforming the state's public college and university system into a powerful catalyst for economic growth; and (3) exploring innovative new ways to educate and train adult workers so that they have the skills in demand by Massachusetts employers.

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Prepared by:

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Lisa M. Lynch

Ralph Whitehead, Jr.

March 2000

A Joint Project of:

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Lifelong Learning Initiative

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March 2000

Dear Friend:

Mellon New England & MassINC are proud to present *Opportunity Knocks: Training the Commonwealth's Workers for the New Economy.*

As a leading employer in Massachusetts and a major presence in the region's financial services industry, Mellon New England has been a strong proponent of efforts to raise the skill levels of Massachusetts citizens. In recent years Mellon has been actively engaged in a variety of initiatives, including several innovative job training programs and a partnership with MassINC which led to the study *Closing the Gap: Raising Skills to Raise Wages* (1997) and significant reporting in the pages of *CommonWealth* magazine. By dispelling some persistent myths about the state's system of workforce development and putting sensible recommendations on the table for state policy-makers, *Closing the Gap* had a noticeable impact on the content and tone of public debate. It is our hope that today's report will similarly impact the discussion of job training in a thoughtful and productive manner.

For MassINC, the release of this report fulfills an important goal of our Lifelong Learning Initiative. The premise of the Lifelong Learning Initiative is that we must pursue a continuum approach to learning. That is why MassINC, along with our magazine *CommonWealth*, has in the past aggressively explored the spectrum of areas from early childhood education, through K-12 Education Reform, to adult literacy, to higher education. With this report, we now make a major foray into the area of job training for adult workers.

Opportunity Knocks also stands in a growing tradition of MassINC research analyzing economic trends. *The State of the American Dream in New England* (1996) documented a growing income divide based on educational attainment. *Lessons Learned: 25 Years of State Economic Policy* (1998) reviewed the historic strengths and limitations of state government in fostering economic growth. *The Road Ahead: Emerging Threats to Workers, Families and the Massachusetts Economy* (1998) examined the state's comparatively high cost of living. And most recently, *The Changing Workforce: Immigrants and the New Economy in Massachusetts* (1999) focused on the contribution of immigrants to labor force growth.

We believe the use of the word **"opportunity"** in the report's title is particularly appropriate and instructive in light of the situation we face as a commonwealth at the beginning of the new century. First, the report explains how we can **expand economic opportunity** for more middle- and working-class families by renewing efforts to build a coordinated system of job training. To be sure, Massachusetts has several strengths that make us the envy of many other states. But we can, and should, do a better job of knitting together the many public and private institutions and programs devoted to building the skills of our workforce.

Second, this report suggests that our success in the future largely depends on the willingness of the state's political, business, labor, and civic leaders to come together and **seize a special opportunity** that exists right now. With the recent passage of the Workforce Investment Act in Washington, states have more freedom than ever before to set their own objectives in job training policy and pursue creative ways to reach those goals. While the new federal policy doesn't force states to comprehensively reform themselves, it does loosen the reins so that states, who want to charge ahead of the pack, can.

We are extraordinarily grateful to the team of authors responsible for this report. John D. Donahue of Harvard University's Kennedy School of Government, Lisa M. Lynch of the Fletcher School of Law and Diplomacy at Tufts University, and Ralph Whitehead, Jr. of the University of Massachusetts, brought enormous expertise and enthusiasm to the project. And, as always, we would like to express our appreciation to the many other people who, through their valuable input, have contributed immeasurably to the final product. We hope you find *Opportunity Knocks* a provocative and timely resource, and we welcome your feedback.

Sincerely,

David F. Lamere
Chairman, MELLON NEW ENGLAND

Chris Gabrieli
Co-Chairman, MASSINC

Gloria Cordes Larson
Co-Chairman, MASSINC

Opportunity Knocks

Training the Commonwealth's Workers for the New Economy

CONTENTS

Executive Summary i
- Key Findings ii
- Recommendations iv

SECTION 1 Introduction 1

SECTION 2 The Commonwealth and the Skill-Centered Economy 3
- Technology and Skills 4
- Inequality in the Commonwealth 5
- The Commonwealth in 2010 7

SECTION 3 A Window of Opportunity for Workforce System Reform 8
- Job Training as a Policy Puzzle 9
- The Latest Wave of National Reform 12
- The New Federal Law as a Window for State Reform 15
- What Does It All Mean For Massachusetts? 19

SECTION 4 How Are We Doing? 20
- What Skills Will the Economy Demand? 20
- Are We Preparing the Workers of Tomorrow? 22
- What Does It All Mean For Massachusetts? 26

SECTION 5 What Are Other States Doing to Build Skills? 27
- Employer-Based Training Systems 27
- Community College-Based Training Systems 28
- State Agency-Based Strategies 29
- What About Massachusetts? 30

SECTION 6 The Fragile Setting For System-Building 32
- Current Strengths 33
- Recent Advances 33
- Divided And Dispirited 34
- Implementing the Workforce Investment Act 44

SECTION 7 To Build A System: Prospects and Recommendations 45

About the Authors 54

EXECUTIVE SUMMARY

Massachusetts has always lived by its wits. Education and technological sophistication have always mattered more in this rocky northern commonwealth than in locales more favored by geography. This heritage makes Massachusetts well-placed to prosper in the new economy. But one worrisome problem both dims the luster of the current boom and might even cut it short—inadequate skills. Shortfalls in human capital, as a series of MassINC reports has argued, threaten to inflict major damage on two fronts.

First, the state's middle class—the anchor of our commonwealth's economy, culture, and civic life—is under pressure. The income growth of families with one or more high-end professionals or technical workers is far outpacing families with less-skilled breadwinners. The widening economic gap between the have's and have-not's implies a host of troubling consequences on the social, political, and civic scenes.

Second, Massachusetts businesses are finding their competitive advantages eroding because critical positions are going unfilled. Employers are now faced with a threefold dilemma: Native Massachusetts workers too often lack the skills that new jobs require. Few skilled workers from other states are willing to migrate here. And many companies see their most skilled workers enticed by opportunities in lower-cost locales in the South and West.

MassINC's previous study, *The Road Ahead*, found that the Massachusetts labor force grew by less than one percent from 1990 to 1997, slower than the pace in 46 other states and starkly short of the 8 percent national average. The report also found that 220,000 more people left the state than moved here between 1990 and 1997. This discouraging aggregate trend concealed an intensified exodus of the young and educated. Of those 220,000, almost 90,000 had college degrees and 126,000 were 25-34 year-olds.

The state's current boom cannot be sustained without adequate supplies of skilled labor. We need to make the most of every worker, and recognize that wasting workers through needless skill deficiencies is as real a loss as the brain drain to other states. Only by raising the Commonwealth's skills base, especially among our least skilled workers, can we begin to reduce economic disparities and reinforce the economic vigor we currently enjoy.

But we are not well positioned to pursue this mission. Our top colleges and universities are second to none. Serious bipartisan efforts at primary and secondary education reform promise to improve the skills of the next generation. Many employers provide ongoing training for their own workers—but mostly for those who already have strong skill foundations.

Massachusetts's weak suit—compared to other states, and to our own needs—is providing skill-building opportunities for adults, especially lower-middle-class and working-class adults.

New federal legislation—the Workforce Investment Act of 1998—provides a rare occasion for Massachusetts to rethink, reorganize, and reinforce its workforce development efforts. But the new legislation is more an invitation than a mandate. It leaves key decisions (and most of the burden) to the separate states. We can use this occasion to build on strengths, make good our weaknesses, and integrate scattered programs into a true workforce development system. Or we can slide by with the minimal changes the new law requires.

Our leadership in skills-based industry is a long-standing legacy, but a legacy that can be lost.

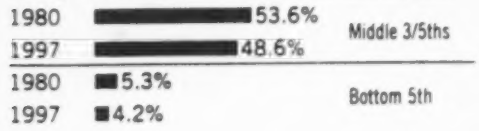
If we squander this special opportunity to use the Workforce Investment Act as a lever for reform, however, we will be passing on a chance that other states are unlikely to miss. Our leadership in skills-based industry is a long-standing legacy, but a legacy that can be lost. Massachusetts can maintain its lead in top-flight, highly adaptable labor. It can deliver the skilled hands and minds to staff our businesses, swell the ranks of taxpayers, shrink the ranks of dependents, and help thousands more of our citizens firmly secure their place in the broad middle class. But we can only do this by building and funding a workforce development system that goes beyond the ambitions of the past.

KEY FINDINGS

Income inequality has increased starkly over the past two decades despite years of sustained economic growth.

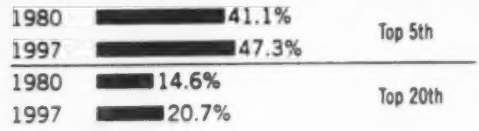
- The fraction of family income collected by the broad middle class—the middle three-fifths of the income spectrum—dropped from 53.6 percent to 48.6 percent from 1980 to 1997. Over the same period, the share of family income collected by the bottom fifth of families nationwide fell from 5.3 percent to 4.2 percent. *See page 6.*

Family Income Falls for the Middle and Bottom



- The income share of the top fifth of American families, meanwhile, has risen from 41.1 to 47.3 percent—and, within that top fifth, the top *twentieth's* share of total family income has gone from 14.6 percent in 1980 to 20.7 percent in 1997. *See page 6.*

Family Income Rises for the Top and Very Top



- One study that examined state-by-state average income for families with children in 1985-87 and again in 1994-96 found that the top fifth of families in Massachusetts gained an average of 15 percent in annual income while the bottom fifth *lost* an average of 8 percent, once inflation is factored in. During this decade the U.S. as a whole saw a little more gain at the top (16 percent) but considerably less loss at the bottom (3 percent). *See page 6.*

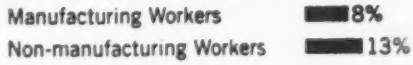
The evidence is clear: investments in human capital increase the economic returns to both employers and workers.

- While earning power is surely affected by genetic endowment, family background, luck, timing, individual character and work experience, there is ample evidence that investments in human capital matter greatly on their own. Researchers have found that a year of post-secondary education increases annual earnings by 5 to 10 percent, even after controlling for other factors and (importantly) whether or not that education was from a two-year or four-year college program. *See page 5.*

- Indeed, human capital need not be acquired in an educational institution. Research suggests that a year of structured on-the-job training can have the same impact on wages as a year of college. *See page 5.*

- Using data from a nationally representative survey of U.S. employers in 1994, researchers found that increasing the average educational level of workers in a firm by one year raised productivity as much as 8 percent in manufacturing industries and 13 percent in non-manufacturing industries. *See page 5.*

Productivity Rises When Average Worker's Educational Level is Increased One Year



The economic returns to skills are increasing—even as college enrollments increase.

- Economic divisions among American families are deepening along educational lines. Professional families averaged more than three times the income of high-school graduate families in 1998, and their income has grown three times as fast since 1991. *See page 4.*

Education and Family Income in the 1990s*

Education of Family Head	Average 1998 Family Income	Real Growth 1991-1998
High School dropout	$33,356	4%
High School graduate	$48,434	8%
Associate's degree	$63,524	10%
Bachelor's degree	$85,423	13%
Master's degree	$101,670	17%
Professional degree	$147,170	24%

- In 1980, male college graduates collected 34 percent more annual personal income, on average, than high-school graduates. Men with some post-graduate education, in turn, earned 15 percent more than

* Current Population Survey historical data, Table F-18, from http://www.census.gov/hhes/income/histinc/f018.html, accessed November 1999.

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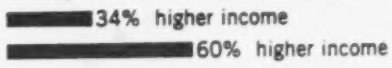
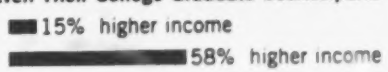
those who stopped with the bachelor's degree. By 1996, college graduates earned 60 percent more than high-school graduates. And men with post-graduate degrees earned 58 percent more than college graduates. In other words, in just sixteen years the best-educated men went from earning roughly one and a half times as much as high-school graduates to earning over two and a half times as much. *See page 4.*

Male College Graduates Earn Increasingly More Than Their High School Graduate Counterparts

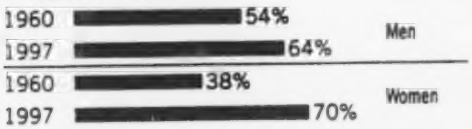


Male Post-Graduates Earn Increasingly More Than Even Their College Graduate Counterparts



- The widening of the education premium is even more striking when one considers that it has occurred in the context of a rapidly rising *supply* of educated workers. In 1960, 54 percent of male high school graduates and 38 percent of female high school graduates enrolled in college. By 1997 college enrollment rates had soared to nearly 70 percent for young women, and close to 64 percent for young men. *See page 4.*

College Enrollment Rates of High School Graduates



Many Massachusetts employers provide training to at least some of their employees—but training goes disproportionately to those employees who already have high levels of education and skill.

- For both the U.S. and Massachusetts, virtually all employers with more than fifty employees provided or paid for some type of formal training for at least some employees. Smaller employers are considerably less likely than larger employers to have established formal training programs. This difference in the probability of providing training, depending on the size of the business, is particularly important in light of the fact that unskilled and lower skilled workers are employed disproportionately in smaller firms. *See page 24.*

- Very few employers (nationally or within Massachusetts) offer any basic skills training. Within Massachusetts, only one percent of all businesses provided any basic skills training to their employees, and hardly any of the smallest businesses did this. *See page 24.*

- Employers in both the U.S. and Massachusetts, on average, are more likely to provide job skills training programs for managers, computer technicians and sales workers than for production or services workers. So skill begets skill. In other words, workers who have a lot of skills when they enter a firm are more likely to receive additional skills. But workers that are "skill deficient" when they enter a firm are less likely to get training from their employers. *See page 24.*

- Small businesses in Massachusetts are less likely to provide training for production workers and clerical workers than the US average. Over a third of U.S. firms include clerical and production workers in their skill-training programs; around a quarter of the Commonwealth's firms do so. Since we know that these same types of workers are *also* less likely to be upgrading their skills at community colleges, JTPA and state-funded training programs in Massachusetts than in other states, this result is cause for concern. *See page 25.*

Massachusetts has no organized workforce development system designed to lift the skills and education levels of our many low-skilled workers.

- Current efforts represent a hodge-podge of efforts—Welfare Reform, Adult Basic Education, job training (through the Job Training Partnership Act, which will be replaced by the Workforce Investment Act in July 2000), incumbent worker training financed with Unemployment Insurance funds, and community colleges supported by state appropriations and tuition fees (some subsidized, directly or indirectly, by the state and federal governments). Each has its own funding streams, which are often complicated—and its own reporting mechanisms, which are not uniform across different parts of the system.

- There is no information system in place that allows taxpayers, employers, and workers to evaluate how each of these elements of our workforce development "system" are performing. Consequently, there is too little real accountability and no easy way to demand more of it.

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New federal legislation provides Massachusetts with a lever to create a unified workforce development system for the first time.

- The Workforce Investment Act was passed in 1998—a rare, bipartisan accomplishment following years of struggle and debate in Washington.

- WIA is a significant—but imperfect—change to the old federal system embodied in the Job Training Partnership Act. It calls for:
  - Consolidation and coordination among workforce-related programs,
  - "One-stop" service for job-seekers and employers,
  - Information-based accountability, and
  - Customer choice and competition among service providers.

- It encourages states to integrate programs for the unemployed and workers (including the working poor).

- But the fine print in the WIA gives states the option of making only minor changes to the old system.

- And the rhetoric of the new federal law is undercut by the fact that there is little new money to match the expanded mission. Moreover, the funding formula Washington uses means Massachusetts gets a small share of what money there is.

RECOMMENDATIONS

Recommendation 1: Focus on measurable performance outcomes and hold elements of the system accountable for results. *See page 47.*

- **Build the state's new workforce development system using key features of the state's K-12 Education Reform model.** The K-12 model hinges on two interlocking features: a renewed funding commitment and a concerted push to create performance measurements and accountability mechanisms that will provide both customers and taxpayers with easy-to-understand data on the value of their investments.

- **Make earnings growth, rather than the conventional measure of job placement, the central indicator of the new system's performance.** Adult job training—arguably unlike K-12 education—has a simple goal: Raising earning power. Such gains can be measured—not perfectly, but tolerably well—and should serve as the system's touchstone. The state's workforce development system should gauge its progress on the basis of the earnings of individuals who have used it. Weaving the unemployment insurance program's wage records into the workforce information system, and interpreting these data with proper care will make it possible to track this indicator.

- **Take advantage of the freedom WIA gives states to define their own goals.** WIA presents no bar to a state defining higher wages and family-supporting earning power as the goal of its workforce development system. The past few decades of employment and training policy have shown that placement is relatively easy; raising earning power is hard. The more the Commonwealth sets the scorecard in terms of placement alone, the less aggressively we will see real reform in workforce development. A placement bias will tilt the system towards job-search services and short-term or job-specific training, and away from deeper investments in worker skills.

Recommendation 2: Encourage business and labor support and invite business and labor pressure. *See page 47.*

- **Business organizations should show the same vision and tenacity they displayed in taking on the K-12 challenge.** Publicly-funded workforce development remains a marginal issue for too many in the business community. Some business organizations have developed an ongoing interest in job training. But this involvement is typically episodic, or low-level, or both. In addition, business organizations should actively work to forge coalitions with labor organizations to build and sustain momentum for reform.

- **High-profile leaders within the business community should publicly associate themselves with the move toward implementing WIA.** Only if business leaders develop a personal stake in the establishment of an integrated workforce development system will they bring pressure to bear that can counter the temptation to pass on the opportunity for deep reform.

- **The labor movement should recognize and act on its own stakes in effective workforce develop-**

ment. A campaign of system-building for workforce development offers a prime occasion for partnership between the state's labor movement and business community. The active engagement of senior labor leaders could help assuage the anxiety of some public-employee union members, and thus broaden the coalition for reform.

Recommendation 3: Build the nation's best workforce information system. *See page 48.*

- **The Governor, with support from the Legislature, should commit state resources, and solicit private resources, to create a workforce information system that is second to none in the nation.** A new system is required that goes beyond current efforts in collecting, analyzing, and disseminating data. Only if workers have good data on the skills required by area employers can they make good choices about what kind of training to pursue. Only if employers have confidence that credentials accurately reflect skills will they come to rely on workforce public labor exchanges. Only if prospective trainees can compare the differences in earnings outcomes among providers can they make intelligent choices as "consumers" of these services. Moreover, only if the Commonwealth has rich, reliable data on the performance of providers, regional organizations, and types of training, can it intelligently adjust its workforce policies in years to come. An ambitious information system is thus the prerequisite to building a workforce development system.

- **Policy-makers should set a deadline of January 2001 for having the essential components of the system in place.** There are significant challenges in making good data on labor markets and training providers widely available to citizens. But the challenges are mostly financial, organizational, and political rather than technological. Since a good data system is a prerequisite to key elements of reform, an aggressive implementation timetable for the information system is essential. And since a good data system does not exist yet, it is important to recognize that system-building will be an on-going campaign. Some steps, obviously, cannot be completed by the time WIA takes effect in July 2000; some cannot even be well underway by then. But a commitment to having the basics of a data system in place by January 2001 is the most crucial downpayment the Commonwealth can make on a workforce development system.

Recommendation 4: Build a workforce system that provides training opportunities to a broad spectrum of workers, not just the unemployed. *See page 49.*

- **Take advantage of the freedom WIA gives states to decide what groups their programs should serve.** The Workforce Investment Act allows states to engineer their training and employment programs to benefit a variety of low-wage workers, rather than restricting assistance to the jobless and dependent. But it does not mandate major efforts in this direction. Nor does it provide the additional resources to support a broader agenda. Workforce development will remain marginal and under-funded if it remains merely an aspect of anti-poverty policy. And we will miss out on our best chance to create a system that empowers more citizens to move up the ladder of economic opportunity into the middle class.

- **Think creatively about ways to encourage employers to provide training opportunities to their low-wage workers and to share at least some measure of the cost.** Many low-wage workers are short on time and money, making some conventional training approaches (such as extended courses of classroom study) infeasible. Workers generally fall into two different groups: those whose employers are willing (or can be rendered willing) to invest in them, and those whose employers will not. Expanding realistic training opportunities requires a different approach for each group.

- **For employers that have shown they are willing to invest in their low-age workers, create incentives to encourage on-site training.** Incumbent worker training is usually based in or near the workplace itself. It might also occur on paid time, or just before or after paid time. The great advantage of this type of training is that it puts less pressure on a worker's schedule. As much as possible, we should pursue policies that move more workers (and their employers) into this first category. Tactics worth exploring include targeted grant, loan, or tax-incentive programs tailored to small- and medium-sized companies.

- **For employers that have not shown a willingness to invest in their low-age workers, experimental**

loan or grant programs ought to be explored to help workers who must pursue training independently to replace their lost wages. For the members of this group, making a living and getting some training are separate and distinct activities. They occur in different places and at different times. A useful model is to consider how graduate students at universities are typically treated. Graduate students often get two kinds of benefits at once: Tuition scholarships, so they don't have to pay for it out of pocket. And a stipend to cover their living costs, so that they don't have to give up study time in order to be able to work. With major changes in what community college students must pay for tuition, the state has begun to provide an equivalent to this free tuition model. The next logical step under the graduate student model would be a measure of access to loans or grants to free up time for training. This merits serious consideration as a significant—but admittedly expensive—extension of workforce development assistance to the working poor. The state should begin exploring potential partnerships with foundations, as well as leaders in the private sector, to fund a pilot program of "training stipends" to support low-wage adult students while they pursue educational opportunities.

Recommendation 5: Take consolidation and customer choice seriously—but gradually. *See page 50.*

- **The Legislature and the Administration should develop and embrace a strategy to knit the entire workforce development system together—and not just the programs specifically slated for integration under the Workforce Investment Act.** Employer-based training for incumbent workers, financial aid for post-secondary programs, remedial and basic education for adults, and other enterprises should be rendered more a system, less a scatter of separate programs. This will take time and political capital. But several considerations suggest it will be worth the effort. So long as "job training" is walled off and secondary to other kinds of investments in human capital, the broader workforce development system will remain warped.

- **As part of the effort to knit institutions and programs into a system, identify and pursue operational economies.** A less important reason for integration, though still a respectable one, is operational economy: Pooling administrative resources can improve the earning power bang for the education and training buck.

- **As part of the effort to knit institutions and programs into a system, build a diversified financial base.** Some of the current funding sources (like employer-mandated contributions to the Workforce Training Fund) rise with the Commonwealth's economy while others (like federal training allocations) fall. Integration can promote system-wide fiscal stability. Finding new ways to put "funding" eggs into more than one "spending" basket, while politically and managerially vexing in the short-term, will augment the system's impact and efficiency over the long haul.

- **Take steps now that will make choice and competition progressively more central to the system and endorse the competitive model as the eventual goal.** The Administration and Legislature may be sorely tempted to downplay the opportunity to introduce more choice and competition into workforce development: The infrastructure is not in place, the model has some real limits, and the competitive ideal inspires skepticism (even hostility) among many insiders. As a short-term model it has undeniable problems. But longer-term it offers tremendous advantages in efficiency, integration, and performance.

- **Do not declare any one provider or group of providers immune from the imperative to demonstrate their payoff to individuals. At the same time, make sure to strengthen each set of providers first, before putting them against each other in full competition.** Community-based organizations with good track records should get technical assistance to help them to adjust to the challenge of vouchers. The Commonwealth can afford to buffer the transition to full competition. And it should, since the alternative is either a risky and traumatic transition or (more likely) a political stalemate leading to a relabeled status quo.

- **Provide public community colleges with adequate funding incentives to make larger-scale incumbent worker training initiatives possible.** Until campuses are rewarded adequately for their efforts to expand their job training mission by

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defraying the cost of new training initiatives, uncertainty and risk will continue to stymie progress in making them a central part of a new workforce development system.

Recommendation 6: Fund the workforce development system at a level that reflects its growing importance to our state's shared prosperity. *See page 52.*

- **Our elected officials in Washington should step up their advocacy on two fronts:** First, they should be attentive to instances where federal aid distribution formulas penalize the state unreasonably. Building legislative coalitions with other states similarly short-changed is the best route to amending existing formulas. Second, our leaders should advocate higher federal spending levels nationally for workforce development. The Workforce Investment Act incorporates a number of potentially promising policy changes, but it fails to provide any significant funding increase that would light a fire behind those initiatives. Without a reliable funding increase from the federal government, states will find it difficult, if not impossible, to build the kinds of workforce development systems that can empower low-wage workers to better their circumstances.

- **The workforce development system should be supported in part by concentrating existing streams of state and federal funding that have not been integrated in the past.** There is no legal or logical barrier against engaging a wide range of existing programs—including those of the Department of Transitional Assistance, federal and state Adult Basic Education programs, post-secondary financial aid, and the Workforce Training Fund efforts of DET—to amplify the impact of more narrowly defined job training funds. This will not happen automatically, of course. One reason why high-level commitment is essential is that otherwise turf-consciousness and simple inertia will undercut the potential for synergy.

- **State government should also step up to the plate with a series of targeted appropriations increases for the institutions and programs at the core of the new system.** Over the next five years, the state has the chance to create a real workforce development system for the first time—and WIA provides the perfect opportunity to begin that process this summer. But no one seriously believes that we can create a job training system that serves low-skilled workers well without committing significant new resources over the next five years.

Recommendation 7: Provide the bipartisan leadership vital to the effort's success. *See page 53.*

- **State political leaders of whatever ideological or partisan stripe should affirm consensus on the importance of skill-building, and seize the opportunity for dramatic action.** This report does not call for a scorched-earth approach to Massachusetts's employment and training programs. But existing institutions and their leaders—no fonder than anyone else is of outside pressure, and scarred by recent disputes—are generally disinclined to undertake major changes. And given the low salience of job training in good times, and the modest federal requirements for serious restructuring, the Commonwealth will waste a rare occasion for reform unless arrangements for funding, governing, and providing employment and training are examined closely and skeptically. Without tenacious political leadership, innovation is unlikely.

- **The state's political, civic, business, and labor leadership should draw lessons, and courage, from their collective experience with K-12 Education Reform.** Tenacious leadership is exactly what the state has received on K-12 Education Reform for most of the past seven years. At each crucial moment, strong leadership from the Senate President, the House Speaker, the Governor, the business community, the Board of Education and many others has held the line on the state's funding commitments and kept the pressure on for raising standards and delivering improved performance. To build a workforce development system that embodies these same principles will require the same kind of sustained commitment from policy-makers, from business and labor leaders, and from other organizations and individuals across the state. Workforce development promises to be a major part of the solution to some of the Commonwealth's most important problems: Skills shortages that strangle economic growth potential, earnings stagnation at the low end of the labor market, and growing income inequality.

SECTION 1 **INTRODUCTION**

Almost everybody thinks that skills matter—even more than they used to matter—and everyone knows a lot about the most obvious way we acquire skills: schooling. Americans of virtually all ages understand the shape and nature of the nation's system of formal education. If you asked someone to draw a diagram of it, they could. At a minimum, they'd sketch an age-graded ladder with its major rungs: grade school, high school, college. They might also include early childhood education at the bottom, and graduate or professional school at the top, or depict the difference between public schools and private schools. They may miss some subtleties, but most people could plot the basics of the system.

Job training is now taking on a striking new measure of importance.

If you ask someone to do the same for the job training system, you get a different result. It's a rare citizen who can even begin to diagram it. This is true even of many who themselves work within the system. The terminology itself is cryptic, confusing, laden with acronyms: JTPA, WIA, PICs, SDAs, REBs, WIBs, DOL, JSA, DET, CBOs, OJT, ITA. Many documents produced by or about the job training system make outsiders suspect there's been some unfortunate accident involving alphabet soup and Scrabble tiles.

Formal education is a familiar feature of American life. Imposing buildings are dedicated to this purpose. These buildings typically occupy conspicuous sites and display their names in prominent places. Students and teachers—clearly identifiable, with well-established roles —flow into and out of these buildings on predictable schedules. Schools and colleges have their own colors and their own mascots. They engage in athletic contests and conduct artistic performances. They hold bake sales and raffles. They are visibly supported by groups of parents and alumni. This is rarely the case for training sites and programs. They have no colors to fly or mascots to parade or teams to field or donated baked goods to sell. They have no PTAs, alumni associations or booster clubs. There are graduate programs and entire colleges that are dedicated solely or chiefly to preparing people for careers as teachers or professors in our system of formal education. There are few such institutions dedicated solely to preparing people for careers in our public job training system.

What happens in our schools and colleges is a major focus of media coverage. Few daily news organizations are without an education reporter, or at least a reporter who devotes a significant share of his or her time to education. In some organizations, the duties are broken down into a K-12 beat and a higher education beat. But there is no training beat. Job training —be it the institutions that govern it, the programs that provide it, or the names and faces and experiences of the people who get it—is rarely treated as a topic of daily news coverage.

Several of the reasons for this vast difference between the way we see education and the way we see training are simple and obvious: The first eight to 12 years of formal education have long been a universal experience. Training hasn't. Our system of formal education has clear-cut boundaries. Training doesn't. It embraces formal and concentrated and expensive programs like executive training sessions at Harvard and MIT. But it also includes events as casual, common, and hard to cost as the moment when we ask (and a colleague answers) the question: "With this new phone system, do you still dial '9' to get an outside line?" So it is easy to calibrate and debate our level of investment in formal education, but hard to do it for training. And, of course, much of our investment in education is public, and so liable to press scrutiny. Much of our investment in training is private.

Nevertheless, job training is now taking on a striking new measure of importance. Though it hasn't caught the eye of the local press, it has begun to figure strongly in the business press, especially the national business publications: *Fortune, Business Week, The Wall Street Journal.* This is visible recognition of its new significance. A few of the reasons for this are also clear.

As observers of today's knowledge economy tell us, the quality of the workforce—at the level of a firm, an industry, a region, a state, a nation—is a crucial source of competitive advantage. In an industrial age, the price of admission to the basic steel industry was

the ability to build or buy a basic steel mill. This was a costly item. Few could afford it. So few could enter the industry, let alone prevail in it. Today's technological tools tend to be cheaper, and to spread quickly. Competitive advantage lies largely in the minds and methods of the workers.

Just as firms must find and cultivate talent, so must cities, states, and countries. A state can no longer pursue an effective strategy of economic development unless it also pursues, via education and training, an effective strategy of workforce development. Moreover, just as the task of developing a state's economy never ends, so the task of developing the workforce of a state (or a firm) never ends. The efforts to upgrade the workforce must be continuous. And the efforts to upgrade the skills of an individual worker cannot end once the worker is 18, or 22, or 32, or 42.

A state can no longer pursue an effective strategy of economic development unless it also pursues, via education and training, an effective strategy of workforce development.

Many players in the private sector regard education and training as enormously important, and signal this regard in two different ways. One is to spend heavily on workforce skills, and to do it directly. General Electric, for example, is famous for its corporate training center and its aggressive emphasis on training its employees. The other is to spend heavily, but to do it indirectly. Rather than *building* a high-skilled workforce a company can buy one ready-made, by hiring people who already have the education and training it needs.

But this private investment in workplace skills tends to be skewed. Large firms are more likely to make it than small firms. And the firms that do invest in training are more likely to provide it to their managers and professionals than to workers farther down the ladder. The result of the pattern is for those already rich in skills to build on their advantage. And there is a strong link between the distribution of skills and the distribution of earnings. Those rich in skills get high earnings. Those poor in skills get low earnings. As the gap in skills has grown, so has the gap in earnings, as Section Two details.

This growing shortfall in the relative earnings of less-skilled workers is one of the major reasons why economic inequality has grown in this state, just as it has across the nation. One way to counter this widening inequality is to improve low earners' endowments of productive skills—especially for those whose formal education consists of a high school diploma or less. Roughly half of the workers in Massachusetts fit this profile. Some less-educated workers are doing fine. But as a group, they are falling behind.

This report stands as the fourth in a series of reports by MassINC that deal, in some way, with the earnings problem that mars the Commonwealth's current prosperity. Like its predecessors, it seeks to advance both an understanding of this problem and a sense of how state policy might relieve it. The first report, *The State of the American Dream in New England*, published in 1996, documented the existence and dimensions of the individual earnings gap in the state and the region. With the emergence of the gap, it argued, what had been a large middle class was dividing, as its skilled members moved up the earnings ladder and unskilled and low-skilled members slid down it.

The second, *Closing the Gap: Raising Skills to Raise Wages*, published in 1997, identified job training as one public policy remedy for the earnings gap, and set a powerful new objective for such training: enabling as many of the state's workers as possible to command at least $35,000 a year in individual earnings. This is enough to purchase a decent standard of living, the report estimates. As it happens, this is the median earnings figure in the state for a worker with a two-year degree, awarded by the public and private community colleges. To enable as many of the state's low-skilled workers as possible to reach this level of individual earnings, the report mapped out a three-stage path from low skills and wages (or unemployment) to decent self-sufficiency. The first stage is basic education; the second is training in vocational skills; the third is the acquisition of a two-year associates' degree or its equivalent, which is fast becoming the entry ticket into the lower reaches of the middle class.

The third, *The Changing Workforce: Immigrants and the New Economy in Massachusetts*, published in 1999, focused on the many contributions made to our state's labor force and population growth by immigrants. Like their native-born counterparts, immigrant workers are facing very different economic prospects depending on their educational attainment levels and

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their English-speaking proficiencies. The report called for a renewed focus at the state level on the challenge of preparing immigrant children for the skill-demands of the jobs of tomorrow. It also called for increased efforts to lift the skills of adult immigrants—many of whom are already in the workforce, but lack the skills to succeed and thrive in today's rapidly changing economy.

Closing the Gap in particular focused on many of the same subjects as those at the heart of this report. It called for bolstering each component of the skills ladder (basic education, job training, and community colleges) and, just as importantly, integrating these fragments into a coherent sequence, like the progression from grade school to high school to college. The Commonwealth has made some progress on this enterprise. But much remains to be done. And there is now a window of opportunity for further reform. New federal legislation invites and encourages Massachusetts to integrate, consolidate, and solidify its workforce development efforts.

But the invitation can be declined. Massachusetts can meet the requirements of the new federal system by doing little more than changing the labels for what it is already doing. This may be a tempting choice for the Commonwealth's policy-makers; deep change is risky, managerially tedious, and politically difficult. There is no constituency clamoring for reform. But to let the moment pass would be a lamentable waste. Such opportunities arise rarely. Given the stakes, it would be a shame to squander this occasion for re-thinking our efforts to improve the earning power of the jobless and the working poor. We have a chance to build a workforce development system, to replace a scatter of separate programs, and we should seize the chance.

SECTION 2 THE COMMONWEALTH AND THE SKILL-CENTERED ECONOMY

From the Bay Colony's earliest days, the people of Massachusetts have lived by their wits.[1] Education, inventiveness, Yankee ingenuity—or in modern shorthand, human capital—always mattered more in this rocky northern Commonwealth than in locales more favored by nature. Whether they take the form of industrial machinery, scientific research, or cutting edge health-care and educational services, the products of the mind form a disproportionate share of what Massachusetts sells to the rest of the world.

Our state's dependence on human capital is evidenced by our residents' high levels of educational attainment. The Commonwealth is tied with Connecticut for the highest fraction of college graduates in the population (27.2 percent in the 1990 Census, and surely higher today) and third (behind Connecticut and Maryland) in the proportion of adults with post-graduate degrees (10.6 percent.) Table 2.1 compares prevailing levels of education in Massachusetts with the national average.[2]

Table 2.1
Educational Attainment in 1990

Percent of Population	U.S.	MA.
No high school	10.4	8.0
High school dropout	14.4	12.0
High school diploma	30.0	29.7
Some college but no degree	18.7	15.8
Associate's degree	6.2	7.2
Bachelor's degree	13.1	16.6
Postgraduate degree	7.2	10.6

A 1999 attempt to calibrate the various states' engagement with the skill-driven "New Economy" ranked Massachusetts first overall, by a substantial margin. The Commonwealth was also near the top in most of the individual factors considered in the overall index, from the level of foreign investment and share of products exported to the prevalence of venture capital, research and development, and industrial investment in the economy.[3] But as the skill-centered economy has come to encompass other states and nations the

[1] See Oscar and Mary Flug Handlin's *Commonwealth* (Cambridge, MA: The Belknap Press, 1969) for an excellent overview of Massachusetts's early economic history.

[2] Data in this paragraph are based on the 1990 Census as compiled in U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics*, 1998.

[3] Robert D. Atkinson *et al*, *The State New Economy Index*, Progressive Policy Institute, July 1999. One interesting exception to the pattern of Massachusetts leadership was in the level of technology in public schools.

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standards for leadership—and the stakes of retaining the lead—have progressively risen. Whether Massachusetts stays at the crest of the wave, as the skill-centered economy grows and evolves, will determine both the Commonwealth's overall prosperity, and how evenly that prosperity is shared.

TECHNOLOGY AND SKILLS

Throughout our history the Commonwealth's prosperity has hinged on rapid adaptation to technological change. When we have kept ahead of the technological curve (whether mechanized factories or biotechnology) we have prospered; when we fell behind the curve (the obsolescence of whale oil or minicomputers) we have faltered. More than for most other states, Massachusetts's central economic challenge has been to continually equip its citizens to fill the roles defined by changing technology.

That challenge has been intensifying. In the past several decades a torrent of technological change has shriveled the demand for unskilled labor and raised the payoff to advanced skills. Just as agriculture gradually faded from economic mainstay to economic marginality, so too (but much more quickly) has manufacturing's dominance waned.[4] While manufacturing remains an important part of the Commonwealth's economy its share of employment has dwindled, with unskilled manufacturing jobs becoming rarer. Within the service sector, technological change has spawned new categories of high-skilled occupations in health care, information processing, and business services. Even within the goods-producing sector, new technologies have devalued physical strength and faithful adherence to routine while emphasizing workers' training, flexibility, and initiative. Stepped-up technological evolution offers glittering new opportunities for those in a position to seize them. But those who placed their career bets on obsolete industrial structures, and who find themselves ill-equipped to adapt, are being left stranded by the new economic tides.

Workers with the right training, and with the educational foundations that equip them to continually improve their skills, discover that new communications and information technologies leverage their ability to create economic value. Employers bid for the services of these high-skilled workers, and their earning power soars. At the same time, however, the penalties for lacking the right skills are becoming harsher. As workers without education find demand evaporating for the kinds of work they can do, their earnings decline both in absolute terms and (even more dramatically) in comparison to their more skilled counterparts.

Education has always mattered for earnings. But it now matters considerably more that it used to. In 1980, male college graduates collected 34 percent more annual personal income, on average, than high-school graduates. Men with some post-graduate education, in turn, earned 15 percent more than those who stopped with the bachelor's degree. By 1996, college graduates earned 60 percent more than high-school graduates.[5] And men with post-graduate degrees earned 58 percent more than college graduates. In other words, in just sixteen years the best-educated men went from earning roughly one and a half times as much as high-school graduates to earning over two and a half times as much.

These skill-based disparities in *individual* earning power combine with other factors to drive a widening gap in family incomes. As Table 2.2 shows, families headed by someone with a professional degree collected over three times the income, on average, as families headed by high school graduates in 1998. Even more dramatic is how that gap widened during the 1990s, as real income for professional families grew three times faster than for high school graduate families. So dramatic a surge in the payoff to post-secondary education, over so short a period, attests to the force of the technological trends that have been raising the demand for skilled labor.

Table 2.2
Education and Family Income in the 1990s[6]

Education of Family Head	Average 1998 Family Income	Real Growth 1991 to 1998
High School dropout	$ 33,356	4%
High School graduate	$ 48,434	8%
Associate's degree	$ 63,524	10%
Bachelor's degree	$ 85,423	13%
Master's degree	$101,670	17%
Professional degree	$147,170	24%

Yet the widening of the education premium is even more striking when one considers that it has occurred in the context of a rapidly rising *supply* of educated workers. (See Chart 2.1) In 1960, 54 percent of male high school graduates and 38 percent of female high school graduates enrolled in college. By 1996 college

[4] Andrew B. Bernard and J. Bradford Jensen have found that the loss of manufacturing jobs was one of the main explanations of growing intrastate wage inequality during the 1980s. "Understanding Increasing and Decreasing Wage Inequality," paper prepared for National Bureau of Economic Research Conference on the Impact of International Trade on Wages, photocopy, January 1998.

[5] The figures on personal income by educational attainment are from the Census Bureau's *Historical Data from the Current Population Survey* on-line compilation, Tables P-13 and P-14. The definition of educational attainment for post-1990 data differs from the earlier series, though the "post-graduate" figure for 1996 cited here is a weighted average of median income for men with doctoral, professional, and masters degrees, making it reasonably comparable to the 1990 counterpart category.

[6] Current Population Survey, historical data, Table F-18, from http://www.census.gov/hhes/income/histinc/f018.html, accessed November 1999.

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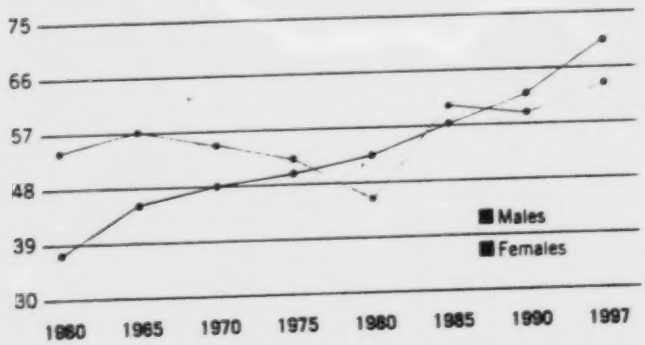
enrollment rates had soared to nearly 70 percent for young women, and close to 64 percent for young men. The increase in college enrollment cut across the spectrum of ethnic groups, though it was greatest for whites (from 50 percent in 1980 to 66 percent in 1995), moderate for blacks (from 42 percent to 51 percent), and far less for Hispanics (from 50 percent to 51 percent). Meanwhile, high-school dropout rates declined across the board, with the sharpest decrease among non-Hispanic black males (from 22 percent quitting high school in 1972 down to 13 percent in 1996).[7]

Chart 2.1
College Enrollment of High School Graduates[8]



Normally one would expect so sharp an expansion in the supply of skilled workers to batter down the education premium; when employers have a deeper reservoir from which to draw their skilled workers they needn't pay so dearly to staff up with the right kind of labor. In fact, the education premium declined somewhat in the late 1970s as newly-graduated baby boomers hit the labor market, but throughout the 1980s and the first half of the 1990s the bonus skilled workers command continued to increase even in the face of climbing levels of educational attainment. At some point, no doubt, increases in the fraction of skilled workers will begin to overwhelm the growing demand for skills, but we seem to be very far from that point today.

Not everyone concedes the central economic importance of education and training. Some argue that success is essentially a matter of innate temperament and intelligence. Other arguments against the payoff to skills center on the idea of the "sheepskin effect." It's not that more educated workers are really more productive, by this argument, but rather that there are a limited number of good jobs to go around, and these are rationed in part on the basis of college diplomas and other formal credentials.

But while earning power is surely affected by genetic endowment, family background, luck, timing, individual character and work experience, there is ample evidence that investments in human capital matter greatly on their own. Thomas Kane and Cecilia Rouse have found that a year of post-secondary education increase annual earnings by 5 to 10 percent, even after controlling for other factors and (importantly) whether or not that education was from a two-year of four-year degree program.[9]

Indeed, human capital need not be acquired in an educational institution. Research by Lisa Lynch suggests that a year of structured on-the-job training can have the same impact on wages as a year of college.[10] Other analysts have used comparisons of identical twins to calibrate the impact of education. If two twins are identical in genetic endowment and similar in other respects, but one has more education than the other, the difference in subsequent earnings should be as clean a test of the payoff to skills as it is possible to arrange. This research suggests that an extra year of education raises earning power by roughly ten percent.[11]

Another category of research looks to the payoff employers collect, in the form of higher productivity, from hiring more-skilled workers, and provides additional evidence on the returns to human capital. Using data from a nationally representative survey of U.S. employers in 1994, Sandra Black and Lisa Lynch[12] found that increasing the average educational level of workers in a firm by one year raised productivity as much as 8 percent in manufacturing and 13 percent in non-manufacturing industries. In separate studies Ann Bartel and John Bishop found that increased company-provided training can raise productivity of a business by 16 percent or more.[13] Black and Lynch also found that non-manufacturing employers that invested in computer training for non-managerial workers experienced 20 percent higher productivity as compared to otherwise similar businesses.

INEQUALITY IN THE COMMONWEALTH

Massachusetts, with its heritage of dispersed land ownership, skilled craftsmen, and wide-open entrepreneurialism, has historically displayed less income inequality than other states more plagued by urban slums, rural

7 U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics, 1998*.

8 *Digest of Education Statistics, 1998*.

9 Thomas Kane and Cecilia Rouse "Labor Market Returns to Two and Four-Year College: Is a Credit a Credit and Do Degree Matter?", *American Economic Review*, vol. 85, no.3 June 1995), pp. 600-614.

10 Lisa M. Lynch, "Private Sector Training and the Earnings of Young Workers," *American Economic Review* March 1992.

11 See Orley Ashenfelter and Alan Krueger, "Estimates of the Economic Returns to Schooling from a Sample of Twins," *American Economic Review* December 1994 and Ashenfelter and Cecilia Rouse, "Income, Schooling, and Ability: Evidence from a new sample of identical twins," NBER working paper 6106, 1997.

12 Sandra Black and Lisa M. Lynch, "Human Capital Investments and Productivity," *American Economic Review*, vol. 86, no.2., pp. 263-68.

13 See Ann Bartel, "Formal Training Programs and Their Impact on labor Productivity: Evidence from a Human Resource Survey", NBER working paper no. 3026, Cambridge, MA, 1989 and John Bishop, "The Impact of Previous Training on Productivity and Wages," in L. Lynch editor, *Training and the Private Sector: International Comparisons*, Chicago: University of Chicago Press, 1994.

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backwardness, or racial economic divides. But the surge in income inequality that began in the late 1970s has hit Massachusetts particularly hard, and is chipping away at the Commonwealth's legacy of broadly shared economic prospects.

Each March, the Census Bureau (acting as the agent of the Bureau of Labor Statistics) conducts a large-scale survey of American residents which covers (among other things) income earned in the previous year.[14] This Current Population Survey (CPS) employs a broad definition of income, including not only wages and salaries but also public assistance and Social Security payments, alimony, interest and dividends, and so on. The buying power of very poor respondents is understated somewhat by the omission of food stamps, subsidized housing, and other forms of assistance than aren't delivered as cash. At the other end of the spectrum, the CPS misses most capital gains, and it records respondents' earnings in a way that understates very large incomes. But the CPS does a fairly good job of capturing what most people think of as income. (Alternative definitions that adjust for taxes, non-cash transfers, non-cash returns on capital and real estate, and other factors show different aspects of income distribution at any single point in time, but don't change the trends in any major way.)

Income data based on the Current Population Survey are conventionally broken down into "quintiles," showing the share of income earned by the bottom fifth, the next fifth, the middle, next-to-top, and top fifth. The recent trend is beyond reasonable dispute: Income inequality nationwide has increased starkly over the past two decades. The share of family income collected by the bottom fifth of American families has fallen from 5.3 percent in 1980 to 4.2 percent in 1997—the most recent year for which data are available.[15]

But in pure quantitative terms the least significant part of the story is the dwindling share of family income at the bottom of the scale. Over the same period the fraction of family income collected by the broad middle class—the middle three-fifths of the income spectrum—has dropped from 53.6 percent to 48.6 percent. The income share of the top fifth of American families, meanwhile, has risen from 41.1 to 47.2 percent—and, within that top fifth, the top *twentieth's* share of total family income has gone from 14.6 percent in 1980 to 20.7 percent in 1997. The trend towards a more uniform distribution of economic rewards, which started in the 1930s and gathered speed with the shared boom of the early postwar decades, has been unwinding as the century comes to a close.

That is the national pattern. But it manifests itself in different ways and to different degrees from state to state. A study by the Center for Budget and Policy Priorities, based on CPS income data, examines state-by-state average income for families with children in 1985-87 period and again in 1994-96.[16] (See Chart 2.2) Over this period the top fifth of families in Massachusetts gained an average of 15 percent in annual income while the bottom fifth lost an average of 8 percent, once inflation is factored in.[17] During this decade the U.S. as a whole saw a little more gain at the top (16 percent) but considerably less loss at the bottom (3 percent).

Chart 2.2

Changes in Average Incomes for Top and Bottom Fifths, 1985-1987 to 1994-1996

- Income grew more in Top than Bottom Fifth (13 states)
- Income grew more in Bottom than Top Fifth (13 states)
- Income fell in Bottom Fifth, grew in Top Fifth (23 states)
- Income fell in Bottom and Top Fifth (1 state)

One gauge of inequality is the ratio of the top fifth's average family income to the bottom fifth's average family income. By this measure, Massachusetts has experienced a sharper increase in inequality than all but fourteen states. At the start of the period, the best-off fifth had incomes averaging just under ten times as large as those of the worst-off fifth. At the end of the period, the ratio of top-fifth to bottom-fifth family income was well over 12.[18] States that have historically displayed more inequality than Massachusetts (including Texas, Mississippi, Georgia, West Virginia, Louisiana, Michigan, Alabama, and Arkansas) experienced

[14] Unless otherwise noted, the CPS data come from the Census Bureau's on-line version of *Historical Data from the Current Population Survey*, http://www.census.gov/hhes/income/histinc, which was revised in September 1997 and accessed between November 1997 and June 1998.

[15] Figures from this paragraph are from an updated version of *Historical Data from the Current Population Survey*, incorporating the March 1998 survey data for 1997, Table 2, http://www.census.gov/hhes/income/histinc/f02.txt, accessed June 1999.

[16] Kathryn Lann and Elizabeth McNichol, *Pulling Apart: A State-by-State Analysis of Income Trends*, Center for Budget and Policy Priorities, Washington, D.C., December 1997.

[17] *Pulling Apart*, Table 9. These inflation-adjusted income figures are often, and with some justification, criticized as distorted by flaws in conventional measures of price increases over time. But the criticism is nearly irrelevant for present purposes. The bias, if any, cuts across the income spectrum and doesn't alter comparisons between higher and lower family income categories.

[18] *Pulling Apart*, Table 10.

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less widening of the gap between the best-off and the worst-off families, or an actual narrowing of the gap. Among our neighbors, inequality in New Hampshire, Connecticut, and Rhode Island grew somewhat more than it did in Massachusetts, by this measure; in Maine, it grew by less, and Vermont bucked the national trend by showing no increase.

Another measure compares the average income of the top fifth of families with children to the average income of the *middle* fifth. A comparable pattern shows up here. Massachusetts went from rather better than the national average (with the top earning 2.3 times as much as the middle, compared with a national average of 2.5) to roughly the same as the national average (2.8 versus 2.9).[19] In New Hampshire and Rhode Island the gap between the top and the middle widened by more than it did in Massachusetts. In Maine and Connecticut it widened by less. And in Vermont—which in the middle 1980s had the same 2.3 top-to-middle ratio as Massachusetts—there was no widening at all.

Rising inequality is only one penalty we invite by failing to prepare every willing worker for productive roles in the new economy. Another penalty comes in the form of labor shortages and dampened economic dynamism.

Rising inequality is only one penalty we invite by failing to prepare every willing worker for productive roles in the new economy. Another penalty comes in the form of labor shortages and dampened economic dynamism. It is difficult to calibrate precisely the opportunities lost to Massachusetts businesses because they cannot find an adequately large quantity of adequately qualified workers. But it is clear that shortfalls in the supply of skilled labor have become a pressing problem for many firms, and a real constraint on the Commonwealth's economic growth.

THE COMMONWEALTH IN 2010

The twists and turns of the road ahead will surely overturn any effort to map our economic future, but it is possible to sketch out four imaginable scenarios for the Commonwealth's next decade or so. It could turn out that some political catastrophe, industrial cataclysm, or a vicious downward turn in the business cycle will derail the skill-centered economy and render the entire industrialized world (including Massachusetts) poorer and less dynamic than recent trends would suggest. But leaving that unhappy scenario aside, three more likely alternatives remain.

One possibility is that the skill-centered economy will continue to grow and develop, but that Massachusetts will lose its leading role. Just as the Commonwealth stumbled when shipping and whaling declined, or when textile mills migrated to lower-cost locales, or when personal computers eclipsed mini-computers, it may be that ten years from now Massachusetts will again be in the economic doldrums, trending behind a prosperous nation.

Another possibility is that the economy in general will continue to thrive, as Massachusetts enterprises keep their place at the technological frontier, but that this prosperity will be increasingly uneven. In this scenario, trends toward income inequality will intensify. The ratio of top-fifth to bottom-fifth family income—which had been about ten in the mid-1980s and something over 12 in the mid-1990s—will continue its climb. The gaps in prospects and perspective will continue to widen between prosperous towns, neighborhoods, and regions and the less fortunate locales left behind. Our culture will become more fragmented; our politics will become more fractious.

A third possibility is a renewal of shared prosperity. In this scenario, the late-1990s vitality of the Massachusetts economy will prove only a foretaste of sustained leadership in the skill-centered economy. But the rise in income inequality will prove a passing phase. Our most fortunate families will see continued gains in their incomes—but most of the others will experience renewed income gains as well. Income gaps will narrow, and the term "commonwealth" will once again be more than a quaintly distinctive designation for the Bay State.

Which of these scenarios turns out to best describe our future will depend on myriad factors which cannot be affected or even identified from the perspective of today. But one factor which will very likely matter is the quantity, quality, and direction of public and private investments in human capital.

[19] *Pulling Apart*, Table 13.

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SECTION 3 A WINDOW OF OPPORTUNITY FOR WORKFORCE SYSTEM REFORM

Appropriately (and perhaps inevitably) for a policy institute preoccupied with this skill-built Commonwealth, human capital has never been far from the center of MassINC's mission. The Institute's first report, *The State of the American Dream in New England*, featured the disquieting observation that the Commonwealth's "middle class is dividing into two distinct groups with very different profiles and prospects for long-term economic success—and education lies at the fault line between these two groups."[1] Even before the 1990s boom gained its full force, well-skilled workers were moving ahead while a large fraction of those without training beyond high school faced stagnant or worsening economic prospects. The penalty the economy imposed on the unskilled earlier in the decade was not merely a diminished share of growth, but actual setbacks in living standards. The study, led by labor economist Andrew Sum, found that between 1989 and 1994 the least-educated New Englanders became 10 percent less likely to participate in the workforce. Those who *did* remain in the labor force (working, or trying to find work) endured a threefold rise in the odds of unemployment and an 11-percent average decline in inflation-adjusted annual earnings—much worse than what more-educated New Englanders encountered even during those turbulent years.[2]

> The penalty the economy imposed on the unskilled earlier in the decade was not merely a diminished share of growth, but actual setbacks in living standards.

New England experienced a concentrated form of the broad trends reshaping the national economy in the last fifth of the century. Structural change within industry, increased global competition, and technological advances were squeezing out the kinds of jobs that allowed a relatively unskilled worker to earn a middle-class family income. Compared to the early postwar decades, high-wage unskilled jobs dwindled more rapidly during recessions and bounced back less vigorously during recoveries. Durable employment growth was increasingly in sectors of industry—and *within* industries, in specific job categories—requiring advanced skills. The transformation already apparent by the mid-1990s had "altered the role of basic academic skills, formal educational attainment, and training" in determining workers' economic prospects.[3]

A subsequent MassINC report added fresher data and a deeper focus on post-secondary training. *Closing the Gap: Raising Skills to Raise Wages* (November 1997) found that even as the economy recovered, changes within the Massachusetts labor market were "leaving behind hundreds of thousands of less-educated workers who are falling out of the broad middle class." It called for expanding Adult Basic Education, reforming community colleges, encouraging firms to expand investments in their own workers, and improving access to post-secondary training. Many of these recommendations have already contributed to concrete policy initiatives.

One piece of good news is that the calls (by MassINC writers and other voices) to emphasize human capital have been heard, and Massachusetts is in the midst of a multi-front campaign to shore up this bulwark of the Commonwealth's prosperity. Another piece of good news is that the rising economic tide is flowing strongly enough for now to lift even the leakiest boats. The second half of the 1990s has been spectacularly prosperous for the Commonwealth, and even the least-educated workers eventually joined the party. Richard Freeman and William Rodgers recently measured the 1990s expansion's impact on more than 300 local labor markets throughout the country. In only 15 metropolitan areas nationwide did the unemployment rate drop by as much as five percentage points during the recovery. Seven of these 15 were in the Commonwealth—Brockton, Lowell, Pittsfield, New Bedford, Worcester, Lawrence, and Fitchburg.[4]

Nobody can fail to recognize and applaud recent improvements in the employment and earning power of relatively unskilled workers. But at least three worrisome factors dim the luster of this undeniable success. First, and most obvious, is the possibility that our current prosperity may not be permanent. When the

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[1] *The State of the American Dream in New England*. The Massachusetts Institute for a New Commonwealth, January 1996, p. 2.

[2] pp. 73-74.

[3] p. 77.

[4] Richard B. Freeman and William M. Rodgers III. "Area Economic Conditions and the Labor Market Outcomes of Young Men in the 1990s Expansion." National Bureau of Economic Research working paper number 7073, April 1999.

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next downturn *does* strike, the odds are high that less skilled workers will be affected first and worst. The longer-term trends that are tilting the odds against the unskilled have been cushioned, but not cancelled, by the economy's strength. For example, New Bedford is identified in Freeman and Rodger's research as among the "most improved" U.S. cities, in terms of unemployment. But the improvement was from a grim starting point. Even at the end of the 1990s New Bedford still had among the highest unemployment rates—over 7 percent in 1998—of any U.S. metropolitan areas, and real hourly wages in manufacturing have continued to fall over the past two years. And no Massachusetts city is on the list of urban areas enjoying consistently low joblessness—under four percent—throughout the expansion. The second concern is that unless Massachusetts reverses its recent history of slow growth or stagnation in the size of its population and workforce, shortages of skilled labor may pose a threat to continued economic growth *even if* the national economy stays strong. And the third concern is income inequality, which has been growing through boom and bust alike in recent years and which (if it continues unchecked) could trigger serious cultural and political strains within the Commonwealth. Unless one is willing to dismiss all three of these risks, the job training system commands attention as one of the policy areas with the greatest leverage over Massachusetts's political and economic future.

JOB TRAINING AS A POLICY PUZZLE

Among all the institutions devoted to human capital development, the least understood is the array of vocational institutions, community colleges, structured and informal workplace instruction and practice, and other learning opportunities gathered together under the label of "job training." Most discussions of skill building in the Commonwealth focus on formal education for children and young adults. Reforming, strengthening, and easing access to these familiar categories of educational institutions is, understandably enough, the conventional focus of human capital policy. Primary and secondary schooling lay the crucial foundation for later learning. Young adulthood is a privileged age for skill-building, before family responsibilities lay other claims on time and energy. And skills gained early in life can pay off for a longer time than skills gained later. But however central to the Commonwealth's human capital, formal pre-career education is not the whole story.

Twenty or thirty years ago, government-funded job training might have been reckoned not just the least visible aspect of human-capital investment, but also the least important, in Massachusetts as for the nation as a whole. The human-capital formula was school for the children and teenagers, then college (or for those disinclined to abstraction, perhaps an apprenticeship) for young adults. Most workers would then anticipate a half-century or so of harvesting the returns from that early investment, perhaps topped off by the occasional episode of informal on-the-job training. Training outside of this formula was important only for the disadvantaged, for those who had failed in school (or whose schools had failed them) and hence needed a "second chance," or for the handful of workers unlucky enough to be displaced from the stable jobs that then seemed an American's birthright. That has changed.

As more workers confront mid-life career changes, and as the content of even the most traditional occupations grows in complexity, job training beyond the conventional sequence of formal schooling is becoming far more common. Federal Reserve Chairman Alan Greenspan—not known for his vulnerability to policy fads—observed in Congressional testimony in 1996 that because of rapid technological change and economic restructuring, "job skills that were adequate only five years ago are no longer as relevant....We need to improve the preparation for the job market our schools do, but even better schools are unlikely to be able to provide adequate skills to support a lifetime of work."[1] Even under the most optimistic scenario—in which we avoid serious cyclical downturns indefinitely, and reform efforts yield major improvements in formal education—the stakes for worker training will remain high.

Some have argued that while the stakes are high the game is too expensive to play. A prominent line of argument *against* major public investments in job training was laid out in 1996 by the economist James Heckman. It goes like this: Suppose the goal of national training policy is no more ambitious than allowing those with a high-school education or less to recoup the earning power lost since 1979. Suppose we lower the bar even more by worrying only about male high-school graduates and dropouts. And suppose we assume that investments in human capital yield a 10-percent average rate of return, in terms of increased earning power. Even with such limited ambitions and opti-

[1] Statement by Federal Reserve Chairman Alan Greenspan before the House Budget Committee, March 27, 1996, reprinted in *Daily Labor Report*, March 28, 1996.

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mistic assumptions, Heckman argues, it would take a $426 billion investment to restore America's less-skilled men to their 1979 earning power.

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This much-cited calculation is conventionally interpreted as an invitation to give up on the idea of improving the prospects of low-skilled workers who have finished their formal schooling. And $426 billion, to be sure, seems like an impossibly large sum. But other economists have argued that the situation may be less grim than Heckman's calculations suggest.[4] First, put that intimidating price tag in context: America already spends well over $500 billion a year on K-12 and college education. Estimates by the American Society of Training and Development (based on BLS data) suggest that US employers are spending an additional $55-80 billion on formal training a year. This figure would more than double if one included informal training. So annual U.S. investment in human capital currently comes to a great deal more than $426 billion. For another base of comparison, consider that firms spent $534 billion on durable equipment in 1995 alone. And the task has shrunk since Heckman did his calculations, as the recent boom has finally improved earnings for many at the tail end of the labor market. Finally, remember that we need not overcome a long-term slide in earning power in a single year; any campaign of job training investment would inevitably be spread out over time. Whether we can, should, and will commit to such a campaign still involves a great many questions, to be sure. But writing off the goal as impossible is overly simplistic.

Yet even if there were consensus on the feasibility and urgency of undertaking major investments in worker training, there would still be considerable dispute on just how to accomplish this. On at least two dimensions —the sharing of policy responsibility across levels of government, and the roles of training providers, employers, and workers themselves in decision-making about job training—the policy debate features fundamental uncertainties and controversies. Over the past three or four decades job training has been an enduring policy puzzle. This puzzle has been approached in different ways as evidence accumulates, priorities shift, and the political climate changes, but it has never been conclusively solved.

Consider first the question of how policy-making authority and financial responsibility for worker training should be divided among federal, state, and local governments. In theory, there are respectable arguments for, and against, almost any imaginable degree of centralization in who pays and who decides. And in practice, the postwar history of American job training policy has displayed arpeggios up and down the scale of federalism. Through the 1950s and (especially) the 1960s federal manpower programs proliferated to produce a confusing array of training efforts run by different agencies, for different clienteles, with different permutations of federal, state, and local funding and authority.[5] The norm, however, was substantial federal funding but state or local implementation.

...Put that intimidating price tag in context: America already spends well over $500 billion a year on K-12 and college education.

The awkwardness inherent in this fragmentation of funding, authority, and street-level delivery became apparent by the early 1970s. Dissatisfaction with the system inspired the first of what would be a series of grand federal reform efforts—the Comprehensive Employment and Training Act of 1973, consolidating separate intergovernmental programs into "block grants."[6] This was meant to encourage a more orderly division of responsibility: Washington would provide much of the money and set broad goals, but state and (especially) local governments would be free to tailor implementation to fit their own circumstances and priorities. CETA's status as an experiment in federalism was eclipsed, however, as a vast public-employment component came to dominate the program in the Carter Administration. In response to soaring unemployment during the late-1970s recession and state and local budgetary distress, CETA was restructured into a vehicle for putting temporarily jobless workers onto the public payroll. As the program metamorphosed into a subsidized work initiative, with skill-building as an afterthought, many state and local officials spent more effort exploiting the budgetary advantages of federally funded job slots than pondering how best to deploy federal training dollars.

[4] Lisa M. Lynch, "Do Investments in Education and Training Make a Difference?," *Policy Options*, July/August 1997, pp. 31-34.

[5] The Manpower Development and Training Act of 1962 was the main federal program during the early postwar period. Its original inspiration was long-term displacement due to automation, but as cyclical recovery soon after its passage made this concern seem overblown, MDTA's focus shifted to underemployment and regional backwardness.

[6] Some consider MDTA the first wave of federal training reform, but compared to CETA, JTPA, or WIA it was a fresh, even naive, policy initiative rather than a strategic effort to engage the puzzles of federalism and delivery-system design that characterized later legislation. While the public-works component is what most people think of when CETA is discussed, Paul Peterson refers to CETA as "a block grant that gave local governments considerable flexibility in designing training...." *The Price of Federalism* (Washington, D.C.: The Brookings Institution, 1995) p. 61-62.

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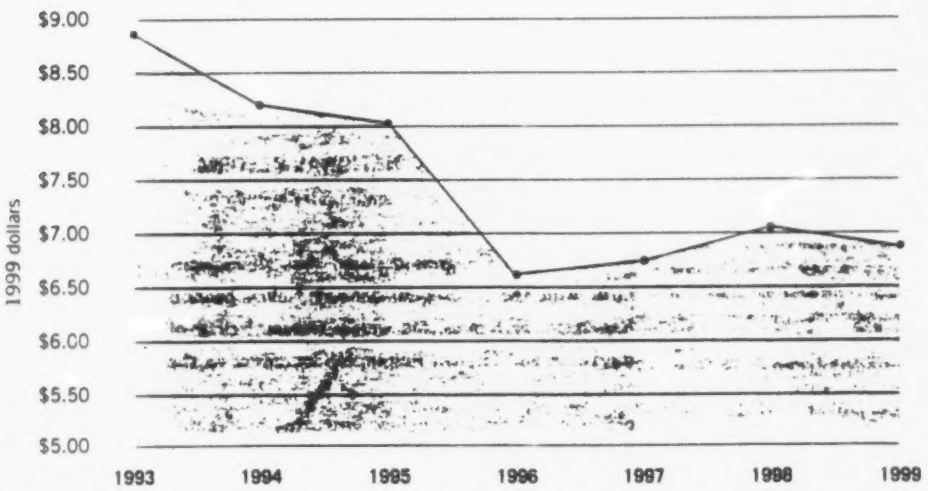
CETA developed a public image as wasteful and vaguely unAmerican, and was abolished in 1982 and replaced by the Job Training Partnership Act. The new training legislation was described by its architects (chief among them Senators Dan Quayle and Ted Kennedy) much as CETA had once been hailed—as the rational consolidation of an unruly intergovernmental enterprise. JTPA was different, however, not just in its focus on training (rather than subsidized work) but also in a greater role for the private sector. Decisions about local training programs were to be made by a business-dominated "private industry council." (The private industry councils, or "PICs," are discussed further in Section Six.) Performance standards set expectations for trainees' subsequent employment and earnings and (in principle at least) imposed penalties on states and local programs for falling short. JTPA also greatly strengthened the authority of the state and diminished that of local government (a trend that would continue in federal training policy). Federal grants went to governors; cities became, for the most part, just one among many classes of interests the private industry councils were urged to take into account.[9]

Like CETA, however, the Job Training Partnership Act fell short of the hopes and claims that attended its launching. It could hardly be otherwise given its modest funding. The enactment of the new training legislation coincided with an era of budgetary austerity in Washington. Total federal outlays for education and training—of which JTPA formed a small part—peaked at a bit more than one percent of gross domestic product in 1977, slipped in the years just before and just after JTPA's launch, and had declined to just over half the 1977 level by 1997.[10] Job training money must be appropriated by Congress every year, and tends to be a relatively weak claimant on scarce budget dollars. This was especially true during the 1990s, amid deficit anxieties and partisan wrangling. Scaled to the size of the American workforce, and adjusted for inflation, JTPA adult training funds fell from around nine dollars per person in 1993 to around seven dollars in the second half of the decade. (See Chart 3.1)

Fewer than one percent of the American adults whose low income made them eligible actually participated in JTPA in the mid-1990s. And fewer than three-fourths of those actually got any training (as opposed to skill assessment and other placement services.) Most of this training, moreover, was very short-term. The category of participants with the longest exposure to training underwent "multiple" training services—a stint of occupational training followed by on-the-job training, for example. But even for this most favored group, the median amount of training during JTPA participation was 402 hours—equivalent to roughly one-third of

Chart 3.1

Inflation-Adjusted JTPA Training Funds per Civilian Labor Force Member, 1993-1999



Source: Bureau of Labor Statistics and Employment and Training Administration data

[9] Some background and commentary on JTPA is included in Chapter 9 of John D. Donahue, *The Privatization Decision* (Basic Books, 1989).

[10] Lynch, "Do Investments in Education and Training Make a Difference?"

[11] The figures on JTPA coverage are from ETA's SPIR data for JTPA II-A for the period April 96 through July 97, as presented in Garth Mangum, Stephen Mangum, Andrew Sum, James Callahan, and Neal Fogg, "A Second Chance for the Fourth Chance: A Critique of the Workforce Investment Act of 1998" Sar Levitan Center for Social Policy Studies Monograph 99-01, Johns Hopkins University, January 1999, Tables 1 and 2, pp. 16-17, and Table 5, p. 20.

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one year of conventional academic work.[11] No reasonable person could expect such limited training, for so small a fraction of the eligible workforce, to work great changes in Americans' productivity and earning power. JTPA's much-touted performance standards, meant to force training providers to deliver value for the public dollar, turned out to be quite easy to meet, especially in the program's early years. The standards themselves were not particularly stringent, and the large pool of JTPA eligibles (relative to the small number of participants) offered ample opportunities to select clients in ways that ensured acceptable post-training performance, on average, even if the training added little or nothing to pre-existing earning power. Washington tightened performance requirements and adjusted other program details in ongoing efforts to improve accountability, but doubts remained about JTPA's overall effectiveness. The Labor Department—which had the lead responsibility for JTPA at the federal level—commissioned a massive, long-term study of the program's impact of JTPA participation.[12] The results, released in late 1993, were mixed but somewhat discouraging, especially for youth. Adult women trainees saw a 15-percent increase in earnings, relative to women who didn't get JTPA training, while men gained about 8 percent. These earnings improvements were statistically significant, and (while small) exceeded by a bit the modest cost of JTPA services. For young people, however, the evidence suggested JTPA typically did little or no good.[13] These results may be less definitive than they seem; many members of the "control" groups, who were excluded from JTPA programs, did have access to other government training programs. But this large-scale evaluation—along with a body of other research on job training programs—helped to set the stage for the next wave of workforce development policy reform.

THE LATEST WAVE OF NATIONAL REFORM

Job training rose on the national policy agenda in the mid-1990s as both the Clinton Administration and the Republican-led Congress declared their disenchantment with the status quo. Senator Nancy Landon Kassebaum of Kansas, the widely respected chair of the Labor and Human Resources Committee in the 104th Congress, had long decried the muddled complexity of job training policy. Frustrated by the diffused and diluted accountability that seemed inevitable when authority was shared among levels of government, she called for a clean focus on the separate states. She proposed legislation to consolidate virtually all federal training and employment efforts into a single block grant to each state, stripping away the rules and restrictions and leaving states free to tailor programs to suit their own conditions. Governors could use the federal funds as they saw fit (so long as at least one quarter went for some kind of employment programs and another quarter went for worker education, broadly defined). Up to half of the funding, in fact, could be used for economic development instead of job training if states decided business promotion was the best way to improve workers' prospects.[14]

Federal agencies would surrender any direct authority over job training programs. Instead, the Secretaries of Education and Labor would join nine other members of an oversight board that would negotiate performance "benchmarks" with each state. If a state fell short of the performance standards it had previously agreed to meet—and if a majority of the diverse board could come to consensus on the need for sanctions—the harshest possible penalty would be a temporary ten-percent reduction in the block grant. The weak provisions for oversight reflected Kassebaum's conviction that federal involvement (beyond sending money) did more harm than good; and her faith in state governments' ability and incentive to make the right choices for their citizens if given the freedom to do so. This proposition was appealing to governors and to many in Congress but others (including, not surprisingly, workforce specialists in both the federal and local governments) resisted putting all the job training chips on state government.

In 1995 Washington's legislative battle lines on training reform were drawn primarily on the dimension of centralization versus decentralization. But to understand the legislation that ultimately emerged three years later, and the choices involved in its implementation, some attention to the second dimension of debate is required. Whether federal, state, or local government takes the lead on the public-sector side, workforce investment involves at least three other players: Training providers, employers, and individuals themselves. Defining their respective roles and responsibilities is a perennial issue in training policy. How are decision-making authority, control over resources, and the right to specify goals and define success allocated among the three? Beneath the simpler and more strident debate over state versus federal authority, the

[11] Abt Associates, *The National JTPA Study* Overview of the Final Report, October 22, 1993. The researchers examined about 16,000 applicants to JTPA programs in 16 different locales, who were randomly divided between a "treatment" group assigned to JTPA training services, and a "control" group that was not. Two and a half years later their earnings and employment were measured, both through direct surveys and (as a check) through consulting official earnings data from the Unemployment Insurance system. The methodology was not perfect—local programs volunteered for inclusion in the study, inviting a positive bias (participants assigned to the treatment group didn't necessarily complete the training prescribed for them, and control group members often had access to alternative sources of training. But the study was generally seen as sound, though extraordinarily expensive.

[12] Exhibit 4, p. 9. For young men with an arrest record, the study showed JTPA participation produced a large, statistically significant decline in earnings—though this may reflect a problem with the data or research design. Overall the net benefits of JTPA—taking into account earnings gains, savings on public-assistance benefits, and the cost of providing training—were tiny but positive for adults (about $500 to $600, spread out over 30 months) but negative for young people (-$1,170 for young women, -$2,900 for young men). Exhibit 16, p. 37.

[13] Kassebaum's "Work Force Development Act of 1995" was published in the *Daily Labor Report* of June 15, 1995.

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mid-1990s witnessed an uncommon period of bipartisan reflection on the roles of employers, providers, and trainees—and the implications of alternative resolutions of this puzzle for government's role.

A workforce development system that ignored any one of these players would rapidly and dramatically fail, of course. In practice, debates on the focus and structure of training programs always turn on questions of balance—how much, and how, to incorporate the interests of and the information commanded by each party. But to better understand these practical debates, consider for a moment the impractical extremes.

The right allocation of discretion among employers, individuals, and providers depends in part on the goals of training policy.

Imagine first some simple-minded training system that relied *only* on the judgment and motives of individual trainees, with no role for employers or training providers, by providing vouchers or tax incentives for training and then calling it quits. There would clearly be *some* virtues. The trainee has her own interests at heart, presumably, and is strongly motivated to choose the training that's right for her. She will try to avoid training in obsolete skills, and steer clear of training providers that are ineffective or (unless her voucher is unlimited) wasteful. Yet this hypothetical training system has some obvious drawbacks as well. An individual trainee might not know what skills are in demand, or are likely to be in demand in the future. She may have too little information to distinguish between effective and ineffective providers. So to the extent workforce policy puts individuals in control, government's job is to define eligibility, police the definition of "training," and ensure access to reliable information about the market for skills and the performance of training providers to help individuals make well-informed choices.

Next, imagine that employers hold the reins, and public training policy is limited to providing grants or tax incentives to subsidize workforce investments chosen by the private sector. The great advantage here is that employers tend to have privileged information about the demand for skills. They may also be able to provide training efficiently by integrating it with their other operations, or procure training cheaply though hard bargaining with providers, in ways that individuals cannot. And the most important skills—such as the ability to function as part of a workplace team—may be hard to deliver outside the workplace. The downside of employer-centered training policy is that employers tend to use an unduly narrow calculus of value when deciding whom to train and how. Any rational employer will be unlikely to direct training resources to skills useful to other companies but not to her own firm, or skills likely to be valuable two years hence but not currently needed by her company. She may also be tempted to use public resources to lighten her own training costs, by training the same kinds of people in the same kinds of skills as she would in any event, instead of training different people, or training them more extensively or in more broadly marketable skills. So to the extent employers are in control, government's job is to try to ensure that public resources supplement, rather than substitute for, private resources. This means inducing or requiring employers to widen the boundaries around the labor pools from which they draw their workers and trainees, and to emphasize training in general skills that are portable across a wider array of employers instead of narrowly firm-specific skills.

Finally, imagine that providers monopolize control: the government promotes workforce investments by sending resources to schools, community-based organizations, and other sources of training and counts on them to do useful things with the money. This could be a simple and direct way to get training done, but also has some fairly fundamental defects. Providers may do a bad job at developing skills, or they may do a good job developing the wrong skills. They may make decisions about which trainees to accept, which skills to concentrate on, and how long training should last based on their own convenience rather than the needs of employers or the interests of workers. So to the extent providers are at the center of workforce policy, government needs to have the data and the analytic capacity to distinguish between efficient and inefficient providers. And it needs to have the mandate, authority, enforcement tools, and inclination to require or induce providers to deliver skills the labor market demands.

The right allocation of discretion among employers, individuals, and providers depends in part on the *goals* of training policy. If pure economic growth is the central goal, for example, a heavy focus on employers

might be best; their tight link to labor markets would be crucial, and the form of waste characteristic of this extreme model—substituting public for private resources—might be tolerable, up to a point. If reducing poverty is the main goal, conversely, it may be better to direct resources to needy individuals, or to providers that specialize in serving such populations. But the right allocation also depends on the public sector's *capacity* to carry out the roles each focus requires. If government is very good at spotting and sanctioning inefficient providers, for example, the risks of a provider-centered approach diminish. If government is very bad at predicting what training firms would do in the absence of subsidies and requiring incremental effort as the *quid pro quo* for public funds—so that companies have to take some extra efforts to earn the money—the risks of a provider-centered approach increase. (And in each case, of course, *vice versa*.)

In the mid-1990s an unlikely coalition pressed the argument for a new balancing of the roles—this time, a significant shift towards individuals.

It is a simplification, but perhaps an illuminating one, to say that national training policy was heavily provider-centered until 1982 and shifted with JTPA to a more employer-centered focus. In the mid-1990s, an unlikely coalition pressed the argument for a new balancing of the roles—this time, a significant shift towards *individuals*. The argument was first articulated by David Osborne in an anthology of "New Democratic" ideas published shortly before the Clinton Administration took office and championed by a group including Doug Ross, who became Assistant Secretary of Labor for Employment and Training in 1993.

The core of the idea was that government should empower individuals with purchasing power and information, but then let them choose among competing providers of training. In part, the proposal reflected frustration with the JTPA *status quo* coupled with skepticism about the efficiency and accountability of training providers undisciplined by effective competition. But it was also motivated by the belief that advances in information technology made it possible to imagine a richer and more reliable training data system than had been plausible in the past. If individuals could tap into good data on the demands for skills, the array of alternative training providers, and the performance of each provider, the weightiest objection to a trainee-centered workforce development system would be greatly lightened. The advocates of such reform waged a long three-front struggle: First, against the formidable logistical impediments to assembling such a system; second, with a set of skeptics who thought the reformers were too harsh on the existing system, or who were uncomfortable with the idea of "vouchers" in general; and third, with adherents of the competing reform idea of devolution to the states.

Highlighting information and individual choice as the centerpiece of training policy was a fairly startling departure from Democratic orthodoxy. The proposal had been controversial within the Clinton Administration, and flatly heretical to Democratic congressional leaders. Many legislators were reluctant to see special programs for military veterans, or workers who lost their jobs due to new trade agreements, or the disabled, or laid-off timber workers, or ex-offenders, or Native Americans subsumed into a single system. While some were motivated by simple turf-consciousness, many were honestly convinced that the disadvantaged would inevitably be short-changed in any universal training system geared to market principles. Even those with no great affection for the status quo were often dubious about the proposal's realism, and were unpersuaded by provisions for testing and counseling potential trainees, and for disseminating data about which skills were in demand and which training institutions had the best track records. The "private industry councils" that ran local programs under JTPA, while of mixed operational effectiveness, were populated by politically influential business, labor, and government leaders. Public-employee unions and community groups—dependent on the institutions that might be bypassed or forced to compete—mounted an impassioned and effective assault on the more ambitious reform proposals.[14]

The Administration's official proposals to the 103rd Congress, accordingly, turned out to be a mixture of sensible but minor refinements to existing programs, and muted versions of the choice-driven approach aired during the campaign. While some programs would have been consolidated, many were left free-standing, with the decision over whether to preserve a separate program or fold it into the broader system more dependent on a constituency's political clout, in most cases, than on the distinctiveness of the program's mission. A governance system made up of public, private, and

[13] *Mandate for Change*. Berkeley Publishing, 1992.

[14] Job training was a Presidential priority, and the Administration budgeted funding increases for training reform even while cutting other popular programs, but budget pressures precluded adding the flood of new resources that would have been required to bypass or buy off the opposition.

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labor officials at federal, state and local levels was to be the main instrument for enforcing efficiency on providers, with individual choice playing a strictly limited role. The use of voucher-style arrangements was narrowly circumscribed, and the word itself was banished. The 1994 elections changed the terrain. With Congress controlled by Republicans, many of whom were deeply hostile to any kind of federal job training effort, constituencies that had been battling centrist Democrats' restructuring proposals suddenly faced much more alarming prospects. The Republican leadership was generally contemptuous of federal job training programs, and called for eliminating or radically shrinking their budgets. The best odds for preserving funding for workforce development now lay in presenting a compelling reform package with which to deflect calls for simply abandoning the enterprise of federal training policy. Augmenting human capital investments in ways that minimized bureaucracy and maximized individual choice, accordingly, became the focus of the Administration's first policy response to the loss of Congress. President Clinton devoted much of a special televised address in the waning days of 1994 to a proposed "Middle Class Bill of Rights," highlighting the Administration's training-reform proposal. The plan featured a symmetrical skepticism about federal and state bureaucracies. Aside from some nods in the direction of "state and local flexibility" it emphasized markets far more than devolution. Individual choice, market information, leaner government, and private-sector involvement were the central themes. Authority would flow toward individuals, rather than state governments. A long list of categorical programs would be abolished and replaced with "skill grants"—vouchers (though the Administration avoided the term) that could be tendered at community colleges, proprietary schools, or whatever institutions proved able to meet workers' needs.[17]

A Democratic Administration presenting a Republican-led Congress with a market-oriented training reform proposal triggered some peculiar political reverberations.

A Democratic Administration presenting a Republican-led Congress with a market-oriented training reform proposal triggered some peculiar political reverberations. The "empowerment" faction of the Republican Party was predisposed to favor voucher schemes, and no more enamored of state-level bureaucracy than were the Administration reformers. Members of this faction held the pen as the House drafted its training bill. Differences over funding levels and other issues made the alliance an uneasy one, but the Administration generally endorsed the House of Representatives' version of training-reform legislation as a reasonable facsimile of the President's proposal. The House bill cut programs and stressed vouchers. It also echoed the Administration's concerns for retaining a role for local governments, not just states. Deepening partisan rancor, however, eventually eroded the odd alliance and ended the potential for training reform in the 104th Congress. The Senate held fast to its doubts about vouchers and its insistence on putting state governments firmly in charge. Two bills were passed by their respective chambers and came to a conference in the summer of 1996. But the Administration was dismayed that the conference was heading towards what Labor Secretary Robert Reich called a "very watered-down version of the voucher idea," with the dominant themes emerging as simple funding cuts, shifting authority from federal and local officials and towards the states, and only feeble steps towards a market-driven system.[18] As the 1996 presidential election approached, the Administration's erstwhile allies in the House were not anxious to give Clinton the occasion for a bill-signing ceremony, and it was not until two years later that closure was reached on job training reform.

The legislation that emerged from this excruciatingly protracted reform campaign is the Workforce Investment Act of 1998. Like most legislation, it is a messy compromise, shaped by the themes of devolution and consumer choice as well as the inertia of the *status quo* and the commingling of job training and welfare-reform agendas. It encourages a larger role for choice, competition, consolidation, and consumer information. But it leaves to state governments the ultimate decision over whether to emphasize those reforms, other reforms, or little reform at all. It *permits* much; it *requires* little. It is an invitation to rethink and restructure workforce development policy. But it is an invitation that Massachusetts, like the other states, is largely free to accept or decline.

THE NEW FEDERAL LAW AS A WINDOW FOR STATE REFORM

The Workforce Investment Act of 1998 can be inelegantly but not unfairly described as a hundred pounds of potatoes in a twenty-pound sack. It originated with

[17] U.S. Department of Labor, "A G.I. Bill for America's Workers," February 3, 1995.

[18] Deborah Billings, "Reich Concerned Training Reform Bill Will Not Embrace Mandatory Skill Grants," *Daily Labor Report*, May 10, 1996.

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grand designs for weaving together unemployment insurance and job training systems; bringing both up to date with technologically sophisticated systems for collecting, processing, and disseminating data on labor markets and education and training; and enlarging the roles of consumer choice and competition among providers. A sharp increase in federal funding was expected to both ease the political shock of the restructuring, and to amplify its benefits. The legislation that eventually passed kept all the original goals and added more—notably advancing Welfare Reform—but with only a small and insecure boost in federal funding.

...understanding the challenges and opportunities posed for Massachusetts by this new legislation requires getting behind the grand generalities and focussing on a few more specific and controversial details of the Act.

The goals of the Workforce Investment Act, as summarized by the U.S. Department of Labor, are hard to argue against: "improving the quality of the workforce," "enhancing the productivity and competitiveness of the Nation," and "reducing welfare dependency."[19] But these are three *different* goals, with real potential for conflicts and tradeoffs. The principles by which these goals are to be advanced are similarly unobjectionable, in the abstract: Streamlining the delivery of training and employment services; empowering individuals through choice and information; integrating services for dislocated and disadvantaged workers; improving accountability; defining a strong but circumscribed role for non-governmental oversight boards; and (the trump) "state and local flexibility." Yet understanding the challenges and opportunities posed for Massachusetts by this new legislation requires getting behind the grand generalities and focussing on a few more specific and controversial details of the Act.

"One-Stop" Service Delivery

WIA calls for states to consolidate training and employment programs into customer-friendly "one-stop" centers. This imperative is clearly sensible, and represents both the convergence of conventional wisdom in employment and training policy (as well as other areas of public-sector reform) and the formalization of structural initiatives advanced without specific legislative authority since the mid-1990s. But the devil is in the details, and the details of WIA bear some attention. A vast range of new and existing workforce programs are required to be broomed together in the one-stop system, and the list includes a mix of organizational giants, Lilliputians, toddlers and (arguably) dinosaurs. "Required partners" include:

- Several categories of JTPA services (testing, placement, and training) for several categories of JTPA participants (disadvantaged adults, young people, and dislocated workers);
- state Employment Services and Unemployment Insurance programs;
- adult and vocational education;
- both established and new "welfare to work" programs;
- veterans' employment and training;
- Trade Adjustment Assistance

along with a number of other programs.

Who is the host of this crowded party? The actual "one-stop" operator can be just about anyone—a state or municipal agency, a university or community college, a community-based organization, the Employment Service, or a for-profit firm. Following the model of a previous demonstration program which jump-started the one-stop system in several states—including Massachusetts—the operator can be selected through a competitive process, or can be a collective entity formed by a collaboration among three or more of the "required partners" in the one-stop. The legislation and its supporting documents strongly discourage the idea of the local oversight organization (Workforce Investment Boards, in the standardized idiom of the WIA; Regional Employment Boards, in the Massachusetts terminology) running one-stops themselves. But such warnings notwithstanding, state and local officials are free to assign government agencies as the one-stop operator anyway. (As later sections will relate, Massachusetts already has some painful history surrounding these crucial details of the one-stop model.)

Customer Choice

It is on the issue of "customer choice" that the rhetoric surrounding the Workforce Investment Act is most glaringly at odds with its legal provisions. The implementation guide boldly declares that henceforth, training providers "will have to deliver value to their customers, or risk losing them. With individuals making their choices based on past performance, ineffective training providers will not survive."[20] Specifically, the

[19] This section draws heavily from the Department of Labor White Paper, "Implementing the Workforce Investment Act of 1998," November 1998, from http://usworkforce.org/wpaper3.htm; the goals and principles are from pp. 4-6.

[20] *Implementing the Workforce Investment Act*, p. 9.

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guide directs that with "limited exceptions, training services will be provided through the use of Individual Training Accounts." These accounts can be of any size a state or locality chooses to make available, and can take on virtually any logistical form, from a paper voucher, to a personal allotment within the government's accounting system, to an electronic card. The vision is that individuals can and will make good choices for themselves, and in the process enforce market discipline on training providers.

There are a number of significant assumptions built into this vision. One is that competition among training suppliers will have the benign effects on efficiency and responsiveness that theory predicts—and that we usually see, in practice, when it comes to competition among the suppliers of computers or cheeseburgers. Another is that individuals can be trusted to make good decisions for themselves, if given good information. And another is that individuals will have the kind of information, about labor-market trends and alternative training providers, that is a prerequisite to wise choice.

...the muscular language about choice and competition, and the seemingly central role of Individual Training Accounts, dissolve under close inspection.

None of these assumptions are entirely safe ones. Some commentators are deeply skeptical that the average American or (especially) the disadvantaged workers and welfare recipients with first claims on training resources are competent to make reasonable choices about which skills to acquire and where to acquire them. Anecdotes abound about hapless people choosing truck-driving schools that advertise on matchbook covers, or fly-by-night diploma mills that extract all the tuition they can from trainees and leave them no better off than they were. Others doubt that competition among training providers is a very good instrument for improving performance, because many providers aren't motivated by money in the simple ways the competitive model requires or because there aren't enough serious rivals in most places at most times to make competition meaningful. And even the most avid supporter of choice and competition would concede that good information on skill demands and providers' performance is essential, and that in the absence of reliable and accessible information the case for market discipline is seriously weakened, or collapses altogether.

So even in the most favorable circumstances—if the law clearly required it, and strong constituencies clamored for it—making the "choice and competition" vision a reality would be a challenging proposition. But the circumstances are very far from favorable. The constituency for choice is weak and diffuse—a scattering of academics, policy analysts, and a few suppliers confident they'd do better with choice than under the JTPA contract system. The prospective trainees who stand to benefit—even if they were inclined to ponder the potential merits of competition—often are unaware that they *are* prospective trainees until they lose their jobs or welfare benefits or otherwise encounter the imperative to improve their skills. The constituency against competition, conversely, is vast and well-positioned. It includes quite a number of *other* academics and policy analysts who are dubious about the basic model (in general, or under present conditions); low- quality training providers who rightly fear they would be shunned by individuals empowered by choice; providers who are rightfully proud of their high-quality training but who fear that individuals would make bad choices and pick flashy fly-by-nights instead; public officials and private advisors who are comfortable with the current system and averse to the turmoil and aggravation change might trigger; and legislators solicitous of any or all of these interests.

The lopsided politics against consumer choice would signal federal-state political fireworks, rather than failed reform, if the Workforce Investment Act's reality matched its rhetoric. But the muscular language about choice and competition, and the seemingly central role of Individual Training Accounts, dissolve under close inspection. The legislation includes a long list of exceptions to the Individual Training Account requirement. The goal of individual choice can be set aside for expenditures involving on-the job training at worksites. Or for "customized" training programs geared to the requirements of a particular firm. Or when the number of eligible training providers in an area is considered too small for choice to be meaningful. Or when there exists any "program of demonstrated effectiveness offered in the local area by a community-based organization or another private organization to serve special participant populations that face multiple barriers to employment." The dimmest state or local training official—let alone the typical player in Massachusetts government—has more than enough ingenuity to make

these exceptions cover virtually the entire training system. Federal rules offer little resistance if a state prefers to de-emphasize, or essentially ignore, the goal of individual choice among providers and types of training. Unless a state embraces the goal as its own, customer choice is likely to remain a negligible element of job training policy for the foreseeable future.

Universal Service

The Workforce Investment Act calls for "universal" access to employment and training services, instead of the clutter of separate categorical programs that have accumulated over the years. This theme dates from the early days of the reform effort that resulted in the Act, and was motivated by many goals: shaking up often ossified state unemployment insurance agencies, overcoming inefficiencies and gaining economies of scale, catalyzing wider use of labor-market information tools, cementing a political coalition to support the workforce development system, and bolstering the quality of services for the poor and disadvantaged by linking them to mainstream programs and institutions. But two of the premises behind the universal services idea—a full-blown information system (as discussed shortly) and a major increase in training resources—failed to materialize, calling into question the predicate of universal services.

...a great deal of work would need to be done before the "Consumer Report"-style assessments envisaged by the Act would actually be available...

Several commentators have pointed to the risk that "universal" access could squeeze out the disadvantaged, as temporarily jobless middle-class workers compete for resources and attention with the long-term unemployed.[1] But the legislation does specify, quite appropriately, that for both "intensive services"—for example, counseling, detailed skill assessments, individual career planning sessions—and training, welfare recipients and other disadvantaged people are first in line if resources fall short. The opposite risk seems at least as likely—a priority for the urgent needs of former welfare recipients and other disadvantaged people, coupled with resource limits, makes it unlikely that middle-class workers will use the system in great numbers. This, in turn, will limit the system's political support and (completing the cycle) keep funding too low to provide service quality and convenience sufficient to attract any but the desperate.

[1] For example, see Garth Mangum, Stephen Mangum, Andrew Sum, James Callahan, and Neal Fogg, "A Second Chance for the Fourth Chance: A Critique of the Workforce Investment Act of 1998," Sar Levitan Center for Social Policy Studies, Monograph 99-01, Johns Hopkins University, January 1999.

Labor Market and Performance Data

As noted earlier, a premise behind several of the reform efforts that contributed to the Workforce Investment Act was that improvements in information technology were expanding the scope for a data-driven training system. The strongest arguments against relying heavily on individual choice have always concerned information. Unless people know a great deal about what skills are in demand currently, and are likely to be in demand one, five, or ten years into the future, they are prone to choose the wrong kind of training. Unless people can distinguish high-quality from low-quality training providers, they are likely to pick a provider based on aggressive sales pitches, convenience, or unreliable word of mouth. Potential trainees will never be completely informed about labor markets or the payoff to alternative forms of training, of course. But modern information technology makes it at least possible that within a very few years there could be easy access to more detailed and up-to-date labor market and performance data than even specialists commanded at the start of the decade. But until major investments are made in collecting, processing, and posting such data the benefits remain only potential.

Some of the steps originally envisaged have been taken. The Labor Department has placed national resume and job banks on the Web; the Bureau of Labor Statistics has a reasonably user-friendly website; and some states have established electronic catalogues of training providers. But for choice and competition to play as central a role as WIA's rhetoric suggests, a fully-developed information system must be up and running in advance. We are very far from that point today. There are rich lodes of labor-market data accessible to anyone with an Internet connection, but only specialists are able to process and interpret most of this information. Much of it, moreover, is too highly aggregated to be very useful to a 26-year-old single mother trying to decide between software design and biotechnology manufacturing processes as the more promising area for pursuing training. Performance data on training providers is even more primitive, and a great deal of work would need to be done before the "Consumer Report"-style assessments envisaged by the Act would actually be available to prospective trainees in any state. More broadly, many of those most in need of training—and hence most in need of such information—are least able to access and process electronic information.

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WHAT DOES IT ALL MEAN FOR MASSACHUSETTS?

The job training policy puzzle has been handed, half-finished, to the states. The Workforce Investment Act challenges Massachusetts to engage concretely the choices that were glossed over in the federal policy debate. Less obviously, it also allows Massachusetts (like the other states) to slide by with only the thinnest veneer of training system reform.

Job training policy is chronically short on political glamour. In good times, when most people who want jobs have jobs, upgrading worker skills seems unimportant to most voters. In bad times, when jobs are scarce, job training seems irrelevant.

Unfortunately, the odds are that many states will slip down the second path, devoting to training reform no more attention or political capital than is required to make the Feds happy and safeguard the trickle of training money from Washington. It is hard to discern much evidence—for now, at least—that Massachusetts decision-makers are inclined to assign workforce development the priority that would be required to engineer a major improvement in the system's coherence, efficiency, and impact. There are several reasons for this reluctance to embrace comprehensive training reform as a high-profile initiative. First, as this section discussed, the Workforce Investment Act (in the name of state autonomy) left most of the hard issues unsettled. Second, job training policy is chronically short on political glamour. In good times, when most people who want jobs have jobs, upgrading worker skills seems unimportant to most voters. In bad times, when jobs are scarce, job training seems irrelevant. Third, as Section Six relates, the current workforce development system is divided and dispirited, scarred by earlier reform efforts and wary about new models. It will be impossible to accomplish systematic change without offending at least some interests and expending some political capital. Fourth, the Commonwealth's business community has largely not exerted its potentially considerable influence on issues of training policy. Even though skill shortages are a major problem for many firms, and even though in times past Massachusetts has defined best practice in some areas of job training, private-sector leaders have yet to champion public-sector workforce development with the same decisiveness and vigor which marked their involvement in K-12 Education Reform. Downsizing plant operations, moving from Massachusetts, "dumbing down" workplaces processes to make do without skilled labor, raiding staff from in-state competitors, or hiring talent from out-of-state or overseas are all alternatives—inferior substitutes, to be sure—in the eyes of most business leaders. But unless and until a top-flight training system becomes a realistic option, businesses will consider, and sometimes choose, even distasteful coping mechanisms.

In such a setting, policy-makers may conclude that training reform is one of those issues that promises more grief than glory—and so keep their distance. Reluctance to commit energy and political capital drastically lowers the odds of major progress during this window of opportunity. This is unfortunate, since (as the sections to come explain) current practice falls short of what the new economy requires, and short of the Commonwealth's demonstrated capacity to deploy bold initiatives.

SECTION 4 HOW ARE WE DOING?

The Workforce Investment Act presents the Commonwealth with an opportunity to rethink and refine its complicated portfolio of education and training efforts—including, but going beyond, the programs directly affected by the new federal legislation. It invites Massachusetts to improve the linkage between federal funding and state-level investments (both public and private) in workforce development. But as a prerequisite to this reassessment, and as a precondition to setting priorities for a skill-building strategy, it is essential to examine the demands our changing economy is placing on workforce development policies, and to inventory how—and how well—our current programs and institutions are meeting the demands for worker skills.

WHAT SKILLS WILL THE ECONOMY DEMAND?

One commonly hears that a "New Economy" is taking shape, formed by innovations in technology (especially information technology) as well as economic globalization and the evolution of new forms of work organization. Successful firms in this New Economy will feature "knowledge-based" work processes, in which an increasing proportion of non-managerial workers are involved in problem solving and identifying opportunities for innovation and growth. Successful employees will possess both the right "hard" skills to cope with the technological changes in the workplace, and "soft" interpersonal skills to thrive in flexible, participatory workplace teams. And all workers will have to adapt to the constant of change, and recognize that their work ten years hence is unlikely to look much like their work today. This scenario has become a commonplace. It is no less credible for that, to be sure—most cliches are rooted in reality, after all—but it is worth examining briefly some relevant evidence.

Is America indeed evolving towards a New Economy? One piece of evidence is the dramatic change in productivity growth...

Is America indeed evolving towards a New Economy? One piece of evidence is the dramatic change in productivity growth in the U.S. during the current economic recovery. From 1960 to 1973—a postwar golden age, in economic terms—the average annual growth rate of productivity throughout the business sector was slightly better than 3 percent. But a productivity slowdown set in during the mid-1970s, in the wake of the first energy crisis, and had become chronic by the end of that decade. Between 1979 and 1994, the average rate of productivity growth was only 1.2 percent per year. But 1994 seems to have marked a turning point as productivity growth accelerated—not to the scorching pace of the early postwar period, but to something far better than the sluggish growth of the recent past. Between 1994 and 1997, average annual productivity growth was 1.7 percent in the business sector overall, and 4.3 percent in manufacturing alone. The productivity recovery has continued into 1999, with productivity growth exceeding 1.6 percent (at an annual rate) from the 1st to 2nd quarter of 1999 for the business sector. Within manufacturing, the pace exceeded 5 percent.

There is a great deal of discussion as to why productivity has grown so sharply in the 1990s. Some argue it reflects extensive investment in new equipment, especially computers. Workplace reorganization—including moves toward more widespread knowledge-based work processes—may also be a factor. But others warn that the challenge of measuring productivity with great precision makes it difficult to disentangle real productivity trends from false signals.[1] There remains—and will by all odds continue to remain—some uncertainty about whether the "New Economy" is a major break from the past, a more modest departure from recent trends, or a set of minor real effects amplified misleadingly by measurement errors. How one interprets the productivity-growth debate will affect how much weight one puts on the New Economy scenario.

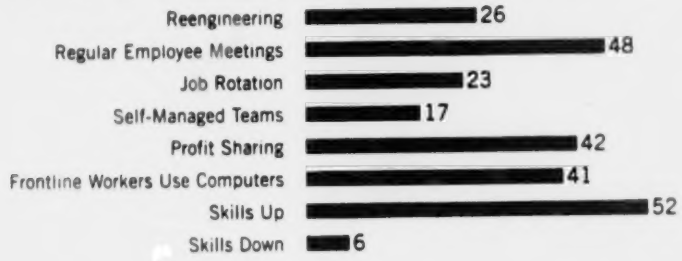
We are not limited to the aggregate productivity statistics in looking for signs of new economic trends that affect the level and nature of demands for workplace skills. There is also direct evidence from firms on changes in workplace practices and technology that they have implemented over the 1990s. A data-collection effort on changes in workplace practices has coincided, fortunately, with the period of re-ignited productivity growth. In 1997 the U.S. Census Bureau conducted a nationally representative survey of more than 3,000 businesses employing 20 or more employees, querying employers on their workplace practices

[1] See the *Monthly Labor Review*, February 1999, for some discussion of this issue.

and investments in technology. From this survey we can track the frequency of practices considered characteristic of the New Economy.[1]

Chart 4.1

"New Economy" Workplace Practices in the Mid-1990s (percent of businesses)



As shown in Chart 4.1, more than 26 percent of U.S. businesses had undergone a major organizational structure change or reengineering event between 1994-1997. Almost half of these businesses reported that they regularly meet with non-managerial employees to discuss workplace issues. A smaller proportion of firms reported using self-managed teams or job rotation. But more than 40 percent reported offering profit sharing or stock options to their employees, giving them stakes in the firm's success. The impact of information technology on the American workplace has been significant. More than 40 percent of U.S. employers reported that by 1997 at least three quarters of their non-managerial workers used computers in their job. Not surprisingly, given all of these practices, most employers report that the skill demands of their businesses are up in 1997 compared to their needs in 1994; only 6 percent report that skill demands had actually fallen over this period.

There are some important differences however in the diffusion of these practices by sector and by establishment size. For example, almost one-half of all employers in non-manufacturing report that most of their employees use computers while this is true for only 13 percent of employers in manufacturing. More than 60 percent of the largest employers in the U.S. have experienced a major reengineering effort between 1994-1997 while only a fifth of the smaller employers have done so. This difference by establishment size is important to note to avoid a common confusion: Most *employers* are small, but most *employees* work for larger employers. Unfortunately, the Census Bureau survey does not contain a large enough sample of Massachusetts firms to assess with any confidence how the Commonwealth tracks, and how it departs from, the national pattern. But there is some evidence that Massachusetts is, on the surface at least, relatively well positioned for this New Economy. A recent study[2] by the Progressive Policy Institute ranked Massachusetts as number one in its index of states best positioned to compete in the "New Economy". In order to construct this index PPI examined every state in the country along 5 dimensions: industrial and occupational mix (to proxy for the extent of "knowledge jobs"), globalization, economic dynamism and competition, the transformation to a digital economy, and technological innovation capacity. Massachusetts leads the country in terms of the proportion of the workforce employed in what PPI calls "knowledge jobs" and its technological innovation capacity. This number one ranking is due primarily to the high proportion of college graduates in the state employed in high tech, managerial and professional jobs.

Of the 23 fastest growing occupations in the state, nearly half will require a bachelor's degree.

Another approach for calibrating the future skill needs of the Commonwealth is to examine employment and occupation projections. The Division of Employment and Training's *Massachusetts Job Outlook through 2006* predicts that Massachusetts's fastest growing occupations will be in computer and health services. Of the 23 fastest growing occupations in the state, nearly half will require a bachelor's degree. More generally, the service industries are projected to generate more than three out four new wage and salary jobs within the Commonwealth over the next 7 years. Services industries account for a greater proportion of Massachusetts's jobs than nationally (35 v. 29 percent in 1996).

Within the service sector, there are 4 industries that are expected together to account for 83 percent of the overall growth—health, engineering, business and social services. In business services 60 percent of the new jobs will be in computer software and related services. In health services 68 percent of the job growth will be in home health care agencies, medical and testing labs and other outpatient care facilities. The engineering, accounting and management consulting sector is expected to grow 35 percent by 2006. In terms of growth in employment by occupation, professional and technical workers should gain the greatest num-

[1] Source: National Employers Survey 2nd Round. Weighted data on U.S. establishment practices in 1996. Definitions: Reengineering refers to any reengineering efforts over the past three years; regular employee meetings is the percentage of establishments reporting 75% or more of workers meeting regularly to discuss workplace issues; job rotation is the percentage of establishments reporting 25% or more of workers rotating jobs; self managed teams is the percentage of employers reporting 25% or more of their employees work in self-managed teams; and frontline workers using computers is the percentage of businesses reporting that 75% of more of their frontline workers use computers.

[2] *The State New Economy Index*. The Progressive Policy Institute, July 1999.

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ber of jobs overall. They will represent 44 percent of all projected new jobs through 2006 and be the second largest number of replacements behind service workers. Their total share of employment will rise to 27.4 percent from 25.3 percent in 1996. At the same time it is predicted that manufacturing jobs within the Commonwealth will decline 8.5 percent.

ARE WE PREPARING THE WORKERS OF TOMORROW?

The good news, in terms of the match between the Commonwealth's capacity and the New Economy's demands, is that Massachusetts is well positioned to meet continuing growth in technology-driven industries with its relatively large supply of college educated workers. The bad news is that nearly half of Massachusetts's current workforce has only a high school degree or less. These workers are at increasing peril of being left behind as the Commonwealth moves ahead. The two simplest imaginable responses to this mismatch have some obvious drawbacks.

One response is to concentrate on improving primary and secondary education reform and on easing access to college for the Commonwealth's young people. If this strategy succeeds in ensuring that all, or nearly all, of our children and youth start out with a solid base of skills, over time the mismatch can be expected to diminish. We surely should struggle to improve the skills and earning power of the next generation. But limiting our ambitions to traditional education alone would essentially mean writing off the prospects of a very large number of Massachusetts workers. "Solving" the problem of low-skilled workers in a skill-based economy by waiting for them to retire or die off is not a strategy many people would endorse.

The second simple response is to suggest that workers who lack a college degree go back and get one. After all, many forms of financial aid are available to cover the tuition of mid-career workers as well as 18-year-olds. But returning to school full-time is an unhelpful recommendation for many of the workers who need new skills. Retreating from the workforce for two, three, or four years would be a daunting proposition even for many highly paid workers. And given the stagnant or declining real hourly earnings of most less-skilled workers, a great many have had to *increase* their hours of work in order to keep their overall income constant. Many families also face scheduling nightmares as they try to balance child care, elder care and jobs. Rare is the family that can create time for one adult to make an extended commitment to full-time school, in spite of the high returns associated with a college degree. Less educated workers characteristically face two deficits—skills (and hence income) and time. This makes it hard to prescribe formal education institutions, oriented to full-time attendance with most classes scheduled during the day, as the central source of skill upgrading for these workers. So where does a worker in Massachusetts go in search of new skills?

One established source is the collection of training programs associated with the Job Training Partnership Act—the federal-state system, soon to be superceded by the Workforce Investment Act, described in Section Three. But scaled to the size of the task, JTPA is a relatively limited resource. It provided less than $14 million in funding for disadvantaged adults for program year 1999. (A further $13.5 million was allocated under JTPA for dislocated workers, less than $2 million for youth training, $12.5 million for summer youth and $19 million for welfare-to-work.) While those working in low-skill, low-wage jobs *are* eligible for many forms of JTPA participation, the program's primary focus has not been low-skilled *workers*, but rather the unemployed. Nor, as noted in previous sections, does the Workforce Investment Act mandate any emphasis on low-skilled employed workers. They must compete with dislocated workers, long-term unemployed with major labor-market handicaps, and welfare recipients for scarce resources. (See Table 4.1).

Table 4.1
JTPA Participation in Massachusetts, July 1997 through June 1998[4]

JTPA Category	Number Enrolled
Economically disadvantaged adults (age 22 and older)	3,900
Economically disadvantaged youth (age 14 to 21)	1,550
Dislocated Workers	9,200

Another possible resource for a low-skilled worker is a community college. Indeed, in a previous MassINC report Edward Moscovitch estimates that roughly 70,000 students—or about six times the number of JTPA trainees—enroll in work-oriented adult educational programs in Massachusetts each year.[5] Com-

[4] Information provided by Gene White of the Corporation for Business, Work, and Learning. Summer youth enrollment is not included here.

[5] *Closing the Gap*, The Massachusetts Institute for a New Commonwealth, November 1997, p. 68

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munity colleges often *are* oriented to part-time adult students, and in some states community colleges are the backbone of the workforce development system. But *Closing the Gap* observed that Massachusetts's network of fifteen community colleges enrolls a much smaller proportion of the population than in many other states. Illinois and Washington, for example, have two to three times as many students in their community colleges, relative to the size of the population. In California, a higher proportion of high school graduates go on to further education than in Massachusetts, many of them attending community colleges.

Why aren't more workers attending community colleges in Massachusetts? Part of the answer has to do with funding quirks of our community college system. As *Closing the Gap* discussed, any activities within the states' publicly funded community colleges that take place outside the regular day must be self-supporting —meaning they receive no state financial support. Public funds are exclusively dedicated to conventional daytime classes—the time slots least accessible, typically, to under-skilled workers who hope to boost their earning power through training. Consequently, there has been less development of evening classes here than in other states.

In California, a higher proportion of high school graduates go on to further education than in Massachusetts, many of them attending community colleges.

Another potential source of skill development for employed but less-educated workers is "employer-focussed" training supported by public funds. Such efforts can take many different forms—at the workplace or offsite, long-term or short-term, narrowly technical or more comprehensive. In many states, state financing for training geared to a specific employer developed as a tactic for enticing businesses into the state. Such "recruitment" incentives have been particularly important in the South and Southwest, but have become common as well as tactics for job retention among the older industrialized states.

But despite its origins as a conduit for subsidies meant to benefit *firms*, many states have adapted employer focused public training programs to benefit *workers*. The basic model can be adjusted to encourage more generic vocational and technical skills that are transferable across a wider range of employers. The National Governors' Association[6] recently conducted a nationwide survey of state strategies and practices to expand training opportunities for employed workers. A total of 47 states—including Massachusetts—finance some employer-focussed worker training. When ranked by the amount of money committed to such training, however, the Commonwealth was 39th out of 47. More relevant (and more disturbing) is training money allocated relative to the size of the workforce. By this measure, Massachusetts was, until recently, next to the bottom—46th out of 47. The Commonwealth spent less than 50 cents per worker on state-funded employer-focused training programs in 1998. (The figure has increased measurably since, but still doesn't compare well with competitor states.

We haven't yet exhausted the options for workers to improve their skills, however. Even if full-time conventional colleges are rarely practical, and even if relatively few low-skilled workers are served by JTPA programs, community colleges, or state-financed programs focussed on employers, a whole category of potential workforce development remains unexamined: Training investments by individual firms. In almost any state, at almost any time, a great deal of training is organized and paid for by the private sector. Perhaps less-skilled workers in Massachusetts are benefiting from aggressive skill-building programs at work. To examine the plausibility of this reassuring scenario, we turned to some fresh compilations of data on employer-provided training.

A 1997 Census Bureau survey found that 35 percent of U.S. employers perceive at least a quarter of their production workers to be less than fully proficient in their jobs.[7] Such widespread doubts about the adequacy of worker skills help to explain why firms take it upon themselves to provide training. But these skill investments by individual firms are notoriously difficult to measure, since there is no standard definition of training expenses and hence no meaningful tally of the private sector's overall contribution to skill development. Among the best sources of data on employer-provided training, however, is a carefully structured, nationally representative survey of employers conducted by the Bureau of Labor Statistics in 1993.

This is one of the most comprehensive surveys of US employers and their training investments ever under-

[6] National Governors Association Center for Best Practices. *A Comprehensive Look at State-Funded, Employer-Focused Job Training Programs*. 1999.

[7] Figure from U.S. Department of Commerce, Bureau of the Census. 1997 National Employer Survey.

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taken. For example, it includes all sizes of businesses, not just the largest, and assembles information on any formal training programs that were provided or financed by non-agricultural businesses in 1993.[8]

The survey divided training into 6 types:

- orientation;
- safety and health;
- apprenticeship;
- basic skills (including reading, writing, arithmetic, and English as a second language);
- "workplace-related" training, including communications skills, team-work, problem solving; and
- job-skills training, including upgrading or extending professional and technical skills, computer skills, office, clerical and customer service skills, personal-service skills and production skills.

The overall results of this survey have been discussed in previous publications. But the Bureau of Labor Statistics graciously prepared special tabulations for this study, allowing us to see how the Commonwealth's employers compare to their counterparts nationwide in providing training to their workers. These fresh tabulations allow us to look at both small establishments (those with fewer than 50 employees) and large establishment (with 50 or more employees). The results are summarized in Table 4.2 and Table 4.3. (Keep in mind, when reviewing these results, that they show percentages of *establishments*—and that while most establishments are small, the minority of large ones employ the majority of workers.)

Table 4.2 shows that for the U.S. as a whole, virtually all employers with more than 50 employees provided or paid for some type of formal training for at least some employees. Smaller employers are considerably less likely than larger employers to have established formal training programs. (This difference in the probability of providing training, depending on the size of the business, is particularly important in light of the fact that unskilled and lower skilled workers are employed disproportionately in smaller firms.) Focussing on the figures for Massachusetts, we see that the Commonwealth's employers are broadly similar to the U.S. average. When considering where low skilled workers with deficits in basic literacy or math might turn to make good those shortfalls, it is noteworthy that very few employers (nationally or within Massachusetts) offer any basic skills training. Within Massachusetts, only one percent of all businesses provided any basic skills training to their employees, and hardly any of the smallest businesses did this.

But the odds of an employer offering training to *any* employee tells only part of the story, and arguably not the most important part. Access to employer-provided training is by no means equal, it turns out, across categories of workers. Table 4.3 examines the type of training most important for the earning power of incumbent workers—job skills training—and how firms that provide such training allocate it among groups of workers. It shows the fraction of firms that provide job-skills training to each category of workers.

U.S. employers, on average, are more likely to provide job skills training programs for managers, computer

[8] See Harley Frazis, Diane Herz, and Michael Horrigan, "Employer-Provided Training: Results from a New Survey", *Monthly Labor Review*, May 1995, pp. 3-17.

Table 4.2
Which Employers Offer Training—and What Kinds? (percent of firms)

Type of Training Provided by Employer	Massachusetts			U.S. Average		
	All Employers	Smaller Employers (under 50 workers)	Larger Employers (50 workers or more)	All Employers	Smaller Employers (under 50 workers)	Larger Employers (50 workers or more)
Any formal training	75	72	100	71	69	98
Orientation	32	27	86	32	28	78
Safety	30	26	74	32	29	73
Apprenticeship	16	14	34	19	18	38
Basic Skills	1	0.2	8	2	2	9
Workplace-Related	36	32	81	36	33	79
Job Skills	52	48	87	48	46	87

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Table 4.3

Which Workers Get Employer-Provided Job-Skills Training?

(percent of firms offering job-skills training to indicated occupational category)

Categories of workers who get job skills training	Massachusetts			U.S. Average		
	All Employers	Smaller Employers (under 50 workers)	Larger Employers (50 workers or more)	All Employers	Smaller Employers (under 50 workers)	Larger Employers (50 workers or more)
Management	38	32	71	50	46	80
Prof. or Technical	37	36	43	38	38	42
Computer	51	47	80	53	51	71
Sales	59	58	67	58	56	69
Clerical	27	24	44	35	33	48
Services	18	17	23	17	16	29
Production	25	22	44	36	34	47

technicians and sales workers than for production or services workers. So skill begets skill. In other words, workers who have a lot of skills when they enter a firm are more likely to receive additional skills. But workers that are "skill deficient" when they enter a firm are less likely to get training from their employers. Table 4.3 displays some interesting differences between Massachusetts and the country as a whole. For example, larger Massachusetts employers are more likely than the national average to provide additional job skills training for their computer staff. At the same time, Massachusetts employers are less likely to provide training for management than the US average (regardless of establishment size). Why might this be? It could well reflect the Commonwealth's supply of managerial workers with advanced degrees. Such workers are far more common here than in states less amply endowed with high-level human capital. So employers feel correspondingly little need to enhance the managerial skills of their workers; many employees have already acquired these skills in the formal educational institutions.

However, a more troubling finding in Table 4.3 is that small businesses in Massachusetts are less likely to provide training for production workers and clerical workers than the US average. Over a third of U.S. firms include clerical and production workers in their skill-training programs; around a quarter of the Commonwealth's firms do so. Since we know that these same types of workers are *also* less likely to be upgrading their skills at community colleges, JTPA and state-funded training programs in Massachusetts than in other states, this result is cause for concern.

The BLS survey on employers also included questions on what motivated employers to invest in their workers. In general, US employers report that they provide training to meet skill needs and to retain valuable employees, rather than in response to perceived skill shortages. But when one compares Massachusetts employers to the national average some interesting differences emerge again. For example, more Massachusetts firms cite changes in technology as a reason for why they train than the US average. Small employers in Massachusetts are less likely to report that the need to train arises because of skill shortages than the national average for small businesses. But larger employers in Massachusetts are slightly more likely to report that they need to train because of skill shortages than the national average.

If it is true that worker skills increase productivity, and also true that low-skilled Massachusetts workers face relatively scant opportunities for training *outside* the workplace, why aren't Massachusetts's employers doing more training themselves? Economists who have examined private-sector investments in training and education have identified a number of perfectly rationale reasons why employers might under-invest in the skills of their workers. Much of the explanation hinges on the distinction between "general" and "specific" skills. There is a continuum, to be sure, but the distinction is rendered clearer by focussing on the extremes. Purely general training—such as training in basic literacy or numeracy—raises a worker's productivity across a wide range of occupations. Purely specific training—such as instructions in operating a highly specialized piece

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of equipment, or in using proprietary software—has no use outside a single firm.

A company's decision to invest in training, especially more general training, may be influenced in part by the characteristics of the workers the company employs. Employees who are perceived to have higher turnover rates are less likely to receive employer provided training. If a worker is expected to spend only a short time on the payroll, the employer has less time to recoup any investment in the worker's skills. More subtly, training investments (especially training in general skills) may actually accelerate turnover: If new skills increase the worker's appeal to *other* employers, firms risk having their trained employee hired away. So investments in highly firm-specific training are more attractive than are investments in general training, unless employers can find some ways to "capture" their investment in general training.

Smaller firms may also face disproportionately high training costs. For example, there may be substantial fixed costs of mounting a training program—space, machinery, equipment, staff, and so on—that large employers can spread across a greater number of trainees than can smaller firms. And the loss in production from having an additional worker tied up in training may be a minor matter for a 500-person company, but a major issue for a 5-person shop.

...the loss in production from having an additional worker tied up in training may be a minor matter for a 500-person company, but a major issue for a 5-person shop.

Finally, numerous studies have shown that employees who have already demonstrated their aptitude for learning through extensive formal education are seen as more attractive candidates for training investments provided by an employer. This results in the creation of both a "virtuous" circle and a "vicious" circle of human capital accumulation: Those who start with more schooling are also more likely to receive post-school employer provided training, while those with less education find employers unwilling to compensate for this deficit once they enter the labor market.

These impediments to human capital investment by firms—alone or in combination—can be overcome, in theory. Firms' reluctance to invest in general skills would not be a problem if capital markets were perfect (so that workers could borrow to finance their own general training); or if the government reliably subsidized any general-skills components of corporate training programs; or if workers took pay cuts to compensate firms for training investments from which the worker, not the firm, stands to benefit most. But capital markets are far from perfect, and workers tend to differ from employers in their attitudes towards risk and in their time horizons. As discussed earlier, even if education and training acquired outside working hours were freely available, low-skill workers also face important time constraints. So it is quite likely that in the absence of carefully structured governmental efforts to overcome the impediments faced by workers and firms, too little training—especially general training—will take place.

WHAT DOES IT ALL MEAN FOR MASSACHUSETTS?

The demand for skills continues to grow, and grow faster in Massachusetts than for the nation as a whole. Skill demands include, but go beyond, technical competence associated with particular occupations. They also include problem-solving, working in teams, and the capacity to continually update skills. An exceptionally high fraction of the Commonwealth's workforce is college educated. But nearly half of the workforce still has only a high-school education. Unless the earning power of the less-educated part of the population can be improved, the best forecast is for skill shortages to intensify and income gaps to widen. Yet Massachusetts is by no means a national leader in efforts to augment the skills and amplify the productive capacity of its less-skilled workers.

The following section examines some strategies states use to deploy their own resources, and those they collect from Washington, in order to supplement workforce development investments by individuals and corporations. We then turn to Massachusetts's current and potential training strategies, and suggest some ways to bolster the Commonwealth's capacity to equip less-skilled workers to compete in the New Economy.

SECTION 5 WHAT OTHER STATES ARE DOING TO BUILD SKILLS?

The well-known urgency, driven by both ethical and political imperatives, to concentrate on job-placement for the unemployed (and especially on welfare recipients) puts the Commonwealth at risk of downplaying the less dramatic plight of low-skilled, low-wage workers. The private sector is rationally reluctant to target these types of workers for training, as the previous section discussed. This lays the predicate for government efforts to narrow the skills gap—but raises a host of questions about *how*. The details of addressing these questions fall largely to the separate states, especially under the new Workforce Investment Act. So the various models states have developed for improving low-wage workers' skills—with a special focus on programs oriented to incumbent workers—merit some attention.

Some state initiatives are oriented to employers. Others are based in community colleges. Still others are anchored in state agencies.

This aspect of the training-policy puzzle has gained prominence in many states as simple unemployment has abated and the subtler problems of low-wage work and rising inequality have become more salient. The National Governors' Association recently completed a survey[1] on states' training strategies. Among other findings, the survey revealed that over $575 million was spent on employer-focused job training programs. The four states with the largest programs on a per-capita basis—California, Iowa, Rhode Island and Texas—spent well over $1,000 per trainee. While most states pay for this out of general-fund appropriations, some have sought out alternative ways to finance these expenditures. For example, ten states (including, as of 1999, Massachusetts) fund employer-focussed training through a levy on employers linked to the Unemployment Insurance (UI) tax. Three other states (Iowa, Kansas and Missouri) have developed special debt instruments to finance such training programs.

Such innovations in incumbent-worker training—a few of which will be discussed in more detail below—are a potentially promising development for addressing the problems of less-skilled workers. But they also beg a long list of questions about implementation, financial robustness, and (most of all) targeting. For example, most state programs are targeted on larger manufacturing firms. Companies with 50 or fewer employees collect less than a quarter of the state training funds, on average. But these smaller firms account for about 38 percent of non-retail employment, and a disproportionate number of women, minorities, youth, and economically disadvantaged workers. The challenges of targeting, and of integrating incumbent worker programs with broader education and training efforts, must be kept in mind when reviewing other states' approaches and mapping a path for the Commonwealth.

One way to categorize skill-building programs for workers who are employed, but employed at low wages, is to focus on the institutional anchor of the program. Some state initiatives are oriented to employers. Others are based in community colleges. Still others are anchored in state agencies. The following pages present some examples of each type, and illustrate the menu of options from which states can choose.

EMPLOYER-BASED TRAINING SYSTEMS

California's Employment Training Panel [2]

California is a pioneer in employer-based training. Its Employment Training Panel (ETP) was launched by the Legislature in 1982 as a cooperative business-labor program to fund job training. Since then, it has funnelled more than $550 million to 26,000 employers for the training of over a quarter of a million employees. Most funds (90 percent) are used to retrain employees in companies that face out-of-state competition. About two thirds (down from three-fourths in the 1980s) of the funds have been used to support training in manufacturing. In order to tap the ETP for retraining contracts, employers must certify that prospective trainees are likely to be displaced in the absence of fresh skill development. They must also provide a plan showing how the training contributes to the long-term security of the trainee. ETP can also fund training for unemployed workers, current or former welfare recipients after they have been hired in

1 National Governors Association Center for Best Practices. *A Comprehensive Look at State-Funded, Employer-Focused Job Training Programs*. 1999.

2 See the Employment Training Panel web site: http://www.etp.ca.gov/docs/success.pdf for its most recent report on ETP.

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a job, and training for new workers in expanding industries. The program is funded through the Employment Training Tax, a special levy on California employers participating in the UI system, at a maximum of $7 per employee annually. In fiscal year 97-98 the panel approved $92.6 million for training and employment retention for approximately 65,000 trainees at an average cost of $1,433 per trainee. (About $17 million of this went to businesses with fewer than 100 employees.)

The program has from the beginning focused on employer-based training coupled with strict performance criteria...

The ETP has a number of noteworthy features. When the program was originally designed, policy-makers opted *not* to lodge it in the community college system. This might seem surprising, given the traditional strength of California's community colleges.[3] But the ETP's designers feared that incumbent worker training would become the neglected stepchild of the community colleges. So a separate administrative system was created for ETP, allowing for training to be delivered in a range of settings including (but not restricted to) community colleges. The program has from the beginning focused on employer-based training coupled with strict performance criteria. For example, if trainees did not remain on the job for 90 days following training their training expenses were not reimbursed. And since 1989 employers applying for retraining funds need to document the productivity increases anticipated from the ETP training.

...Employers applying for retraining funds need to document the productivity increases anticipated from the ETP training.

The California program was the first in the country to use the unemployment insurance system to fund worker training. In an evaluation of the California Employment Training Panel, Rosemary Batt and Paul Osterman[4] describe how initially the system was designed to support training for UI-eligible *unemployed* workers only. But as the California economy improved, employers and unions pushed to switch funding towards incumbent workers. Employers understandably preferred to retrain their current workforce rather than to replace them with unemployed workers as a condition of tapping the training funds. Unions, for their part, argued that the tax burden was carried by employed workers and therefore they were entitled to the funds. Neither side's preference for incumbent-worker training was surprising. But as Batt and Osterman detail, the switch from new-hire training of the unemployed to retraining of the employed had distributional consequences that are worth noting. New hires were more likely to be lower skilled, welfare recipients, young, women or minorities while retrained employees tended to be more skilled white males. Another area for concern is that eligibility for ETP training is linked to eligibility for UI benefits—a far less inclusive category than it might appear to be. In 1998, however, ETP added a special initiative for current or former welfare recipients. And the challenges intrinsic to a cooperative, employer-focussed training program have been managed well enough that the program has survived for 16 years with bipartisan support.

COMMUNITY COLLEGE-BASED TRAINING SYSTEMS

North Carolina

North Carolina has organized its skill-building efforts for incumbent workers around its community colleges, and has managed to consolidate most of its training initiatives into an integrated system that is accessible to large portions of the population. The system took root as an instrument of industrial recruitment efforts some four decades ago, as North Carolina sought to lure factories away from other, mostly northern, states. To compensate for its relatively unskilled workforce at the time, North Carolina came to include customized training in its location incentive packages. And to deliver on these promises, it developed a number of industrial education facilities scattered throughout the state. This network of training centers gradually matured into the integrated community college system that North Carolina boasts today. In many states, community colleges started out as more accessible, less expensive versions of traditional academic institutions, and must stretch their sense of mission to make job training a priority.

The unusual origin of North Carolina's community colleges explains their strong orientation to workplace-focussed courses for employed adults. The 58 community colleges hold an exclusive franchise for delivering state-funded training customized to employers' needs, training over 300,000 workers (at a state cost of $44 million) in 1997 alone. In general this program has been funded out of general appropriations, although

3 This is not to say that the community colleges are not involved in ETP. For example, in 1997 ETP and Glendale Community College completed a major contract of over $4.5 million in which 2,720 workers from several firms received training in CAD-CAM.

4 Rosemary Batt and Paul Osterman, "Workplace Training Policy: Case Studies of State and Local Experiments," Economic Policy Institute working paper number 106, January 1995.

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since 1987 general funds have been supplemented by a Workers' Training Trust Fund that draws interest earned on the unemployment insurance reserve fund. Earlier sections have explained how a heavy focus on employers' priorities renders a training system vulnerable to paying for training that a private firm would happily finance on its own. To the extent public workforce-development funds simply cover costs that would otherwise fall to corporations, what is labeled "training" is simply a subsidy to the company. North Carolina's system almost surely suffers some of this; indeed, the system was developed in part as a less obvious and hence more politically palatable way of delivering business-location subsidies.[3] But this linkage between the community colleges and businesses has probably improved the capacity of the system to be responsive to changes in the workplace.

Iowa [4]

North Carolina is not the only state in which community colleges have a major role in incumbent worker training. Iowa also relies on its community colleges, but in a rather unusual way—as a gateway for access to state training funds. Businesses in Iowa seeking state assistance with job training need to partner with a local community college. The community college helps develop an appropriate training program, and brokers between the firm and state agencies to determine eligibility for public funding. (Among other criteria, a business must demonstrate that it is a net job creator to tap state training resources.) But employers are not limited to the community college when it comes to delivering the training.

Another interesting feature of Iowa's incumbent worker training system is that it is fueled not by state appropriations but by special debt issues, with community colleges as the conduits. Each community college is authorized to issue bonds to finance training. Training funds are forwarded to firms as loans. The effective cost to employers is reduced by a tax credit, collected by the firm, based on the number of employees participating in such training. (The maximum credit was $942 per employee in 1997.) On a per capita basis, Iowa has the highest level of public funding for employer-focussed worker training of any state in the nation.

Texas [5]

Texas has established two programs for supporting skills training for new or existing jobs. The largest of the two programs, Smart Jobs, is funded by an earmarked supplement to Unemployment Insurance levies on employers, amounting to one-tenth of one percent of wages paid. The pool of money generated by this assessment can be tapped by employers to reimburse their training expenses. According to the National Governors' Association, community colleges provide about one-third of all training under this program. One notable feature of this fund is that approximately two-thirds of the programs' funds go to support training in non-manufacturing firms. Smart Jobs departs sharply from the usual pattern in allocating more training funds to non-manufacturing than manufacturing employers. As in California, there is a retention requirement for state funding: Employers must document that trainees are still employed 90 days after completion of the training. For incumbent workers, their post-training wages must match or exceed the prevailing wage for that occupation in the local labor market. For workers who were already beating the average, their post-training wage must be at least 3 percent (for smaller firms) or 5 percent (for larger firms) higher than wages paid before the training. Employers are also required to match state funds (although they are allowed to count wages paid to trainees in their matching funds, reducing the burden considerably.)

The second program is the Skills Development Fund. Any business or labor union can enter a partnership with a local community college, technical school or higher education extension agency, thereby creating an entity eligible for funding. This partnering requirement has had a significant impact on how community colleges view their mission. The National Governors Association study finds that (due to recent changes in policy and funding) almost every one of the fifty community and technical colleges in Texas now considers workforce development part of its mission, whereas ten years ago hardly any would have.

STATE AGENCY-BASED STRATEGIES

Rhode Island

The Human Resource Investment Council[6] in Rhode Island coordinates workforce development, whether financed with state or federal resources. This council takes an unusually active role in initiating new programs and building partnerships between employers and public sector organizations. Funds for incumbent

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[3] Related issues are discussed in John D. Donahue, *Disunited States* (Basic Books, 1997), Chapter 6 and Appendix.

[4] See the National Governors' Association Center for Best Practices, *A Comprehensive Look at State-Funded, Employer-Focused Job Training Programs*, 1999 for more detailed discussion on Iowa's system.

[5] See the following web site for information on Smart Jobs: http://www.oled.state.tx.us/smartjobs.

[6] These web site address is: http://www.det.state.ri.us/webdev/hric.html#HRIC.

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worker training are primarily obtained from a UI assessment of .015 percent. Rhode Island's spending on incumbent worker training is the second highest in the country (on a *per capita*) basis, and these resources are deployed through one of the nation's most centralized workforce development systems.

In addition to the Council's programs, Rhode Island offers four job training tax credits to encourage firms to upgrade skills of incumbent workers. The job training tax credit offers employers an offset to their state tax liability of up to $5,000 per employee in any three year period. The credit can be obtained only for training low wage employees, and trainees must be paid at least 150 percent of the state minimum wage upon completion of the training.* The state also gives employers tax credits for expenses incurred through employee participation in adult education for basic skills, English as a Second Language, and some vocational training. In addition there is an apprenticeship tax credit for certain apprenticeship programs and a tax credit to employers who hire and retain long term unemployed or welfare recipients.

WHAT ABOUT MASSACHUSETTS?

This section has outlined some of the approaches other states have developed to address skill and earnings deficit among incumbent workers. As of 1998, all of the states discussed in this section (and most other states as well) spent much more than Massachusetts (on a per capita basis) on such efforts. Likewise, all of them have progressed further in building a workforce development system with ambitions beyond job placement for the unemployed or welfare dependent.

Until very recently, the Commonwealth has been nowhere near the head of the pack in incumbent worker training efforts. In 1998 only $1.5 million was allocated for this purpose through the Employed Worker Collaborative program. Resources available for incumbent worker training have recently undergone a sharp increase, however. During 1998, legislation was enacted to reduce unemployment insurance rates for Massachusetts employers by $121 million. But this reduction was offset, to a modest degree, by the creation of a new workforce training contribution, expected to generate an annual total of $18 million. This is a very new initiative, and only the most preliminary evidence is available on its operations and its effects. But it is sufficiently central to the Commonwealth's human capital strategy that what evidence exists deserves some attention.

Between January and July 1999, $9 million was made available through the Workforce Training Fund to support worker training activities. Training grants to employers ranged from $5,000 to $250,000. The principal focus is on small to medium size businesses, which are presumed to be less able to make such investments on their own. "Cost effectiveness" is supposed to figure as a criterion in the allocation of resources. Individual employers, or groups of employers, can apply for training funds. So can trade associations, chambers of commerce, Regional Employment Boards, and training providers, so long as they form a partnership with businesses or labor unions.

The stated priorities for support through the Workforce Training Fund include:

- projects that will result in job retention, job growth or increased wages;
- projects where training would make a difference in the company's productivity and competitiveness; and
- projects where the applicant has made a commitment to provide significant private investment in training during and after the grant period.

The Workforce Training Fund is a highly flexible source of support for workforce development investments. There are few restrictions on what skills can be taught with Fund support; how they can be taught; or when they can be taught. (Company orientation programs, and legally mandated training—such as instruction in OSHA's job-safety rules—do have to be paid for by the firm.) The duration of training grants may be as long as two years. Nor is there any floor or ceiling on how much can be spent per employee. Allowable costs include costs for training providers, curriculum development, tuition, and supplies and equipment used for the training. The total amount of the grant must be matched at least dollar for dollar by the applicant, although employee wages can be applied to meet this matching requirement.

Eligibility is sufficiently broad, and restrictions are sufficiently light, that one might expect heavy demand for Workforce Development Fund training resources. But as of June 1999, only $4.75 million of the $9 million that had been earmarked for grants in the first

* Information on the tax credit can be found at: http://www.state.state/growth/jobs/jobframe.html

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half of the year had actually been awarded. (This represents $4.16 million in actual training grants, with the remainder allocated as technical assistance grants to various organizations.) The grants that have been awarded so far cover 6,414 trainees employed in 59 companies, with an average award per trainee of $649. However, there is a huge range in the size of the award across employers, with the grant per worker ranging from a low of $108 to a high of $12,539. The majority of grants given so far have been to employers in the manufacturing sector—23 out of 33 employers collecting awards in the Fund's second round of financing were in manufacturing—even though manufacturing represents less than 15 percent of total employment in the Commonwealth.

Consolidation and integration are chronically neglected imperatives in training policy.

The Fund can expect something of a grace period before hard questions will be asked about its cost and it payoff. For one thing, it is far too early for there to be much evidence about its performance. Moreover, its initial funding has been relatively painless, diminishing the pressure for tough evaluation. The UI levy would seem less onerous during an economic boom in any event. More importantly, the big story on the UI front was a major reduction in the burden on business, offset only modestly by the introduction of the training assessment. Businesses will likely be more conscious of the cost in the next significant downturn, and the durability of this funding source remains to be tested. Nobody can predict how long the Fund will have before it must convincingly prove its worth.

The Workforce Training Fund has some obvious affinities to California's Employment Training Panel, and lessons California has learned may turn out to be relevant for the Commonwealth. The new Massachusetts initiative does not seem to stress performance measures as heavily as does California's program. Like the California fund—but even more markedly—the manufacturing sector seems to claim a disproportionate share of training resources.

It is somewhat surprising to see that only about half of the available funding for the first half of 1999 has actually been awarded. Part of this may be due to the program's newness; employers and potential training providers are only gradually learning about the program. To the extent novelty is the constraint, the pace of awards can be expected to accelerate as its existence becomes better known and application procedures become more widely understood. If the Fund *does* become an effective and permanent part of the workforce development system it will represent a significant addition to the Commonwealth's portfolio of human-capital policies. Prior to the adoption of this training fund the state was spending an average of 47 cents per worker on employer-focused training. Assuming Massachusetts does deploy the full $18 million it has currently allocated to the Workforce Training Fund, this will rise to slightly more than $5.60 per capita.

But some perspective is required. Even if the Workforce Training Fund developed according to plan, Massachusetts would be spending less per capita than other states such as California, Texas and Rhode Island. For example, to match Rhode Island's level of per capita spending on employer focused training, Massachusetts would need to spend over $50 million per year.

Spending alone, of course, is not the goal of training policy. The Commonwealth also needs to ensure that the spending is effective. And this requires careful, creative efforts to evaluate and review the performance of training programs—not just the new Workforce Training Fund, but established programs as well; not just state-funded training, but federal programs, too.

Consolidation and integration are chronically neglected imperatives in training policy. The National Governors Association has noted, and lamented, the characteristically weak links among human capital programs, and the Commonwealth is by no means immune from this syndrome. The Workforce Investment Act, in principle, is a clarion call for integration. (The Workforce Training Fund, as a UI-funded initiative, is included among the types of programs states are urged to knit together into a coherent system.) But integration is a significant political and operational challenge for the Commonwealth—one of the challenges to which we now turn.

SECTION 6 THE FRAGILE SETTING FOR SYSTEM-BUILDING

The Commonwealth's job training effort displays enviable strengths, and has recently made important advances. But it is also divided and dispirited. Many key players recognize the need for greater coherence, better coordination, and stepped-up energy and resources. Both recent history and current policies, however, render the Commonwealth a less auspicious setting than it should be for system-building reforms. The advent of the Workforce Investment Act is perceived by many not as the dawn of new opportunities, but as the re-opening of painful wounds. Rather than scrambling to exploit this window for reform, many of the institutions involved in the broad workforce development enterprise are simply bracing for the impact of whatever comes next from Washington and Beacon Hill.

...the Commonwealth's workforce development system is like a peacetime army: things are quiet, but we can't be sure it deserves credit for the quiet, because it hasn't been tested recently.

For now, there is little price to be paid for this condition. The economy is strong. Jobs are relatively plentiful, even for those with few skills. The unemployment rate is low, and has fallen somewhat even in geographic pockets where it has long been much higher than the statewide average, such as the cities of Fall River and New Bedford. There is still turbulence in the job market, even at this high point in the business cycle. Firms are still closing their doors. Layoffs are still occurring. But the turbulence is cushioned in a way that it was not in the early '90s. Then, the loss of a high-wage job threw a worker into a market where jobs were few and jobs at high wages even fewer. Now, the number of jobs is larger, though wages remain a problem.

Thus the training system has not been officially assigned to meet a large and visible public challenge of the sort that can overcome inertia and catalyze action. The Big Dig poses such a challenge to the state's ability to organize, build, and keep costs in check on the nation's largest public works project. The Education Reform effort poses such a challenge to the public K-12 establishment. Currently, however, no such challenge has been posed to the state's public job training system.

In light of the system's traditional mission of helping the jobless to move into the ranks of the employed, there is both good news and bad news. The good news: Many people have indeed been making this move. The bad news: It isn't clear how much the system itself is actually contributing to such a result. In a sense, the Commonwealth's workforce development system is like a peacetime army: things are quiet, but we can't be sure it deserves credit for the quiet, because it hasn't been tested recently.

The system has some undeniable strengths and has made real progress on some fronts in the last three years. But overall, it remains divided and dispirited. Until attitudes change, existing funding streams are reprioritized, and funding levels are increased where necessary to do the job, Massachusetts will be unable to take advantage of the opportunities the implementation of WIA offers us.

Most importantly, the system's traditional mission is too narrow. Given the nature of the new economy, it is no longer good enough to move people from joblessness to jobs. It is also necessary now to focus on people who are already in jobs—but in less skilled, low wage jobs—and help them to improve their earnings. These are two different goals, each legitimate: moving jobless people *onto* the skills-and-earnings ladder, and moving employed people with few skills *up* the ladder. But we are set up to pursue only the first.

If we frame the goal as equipping willing workers to earn a decent living, what does that mean in practice? How high should the bar be for "success" in workforce development? This is a matter for broader discussion and debate, of course, but the previous MassINC report *Closing the Gap* proposed a conservative standard for adequate earnings: The amount earned a few years after graduation by the typical Massachusetts holder of a career-oriented two-year associate's degree. This degree, granted by public and private community colleges in the state, offers a combination of academic

work and vocational training. Those with such degrees typically earn in the low to middle $30,000's.

Since the early 1980s, as Section Three described, the national government's signature job training effort has been the Job Training Partnership Act. JTPA includes several different sub-programs, with varying eligibility standards, but its overall emphasis is on the jobless, not the working poor. As one training official in Boston puts it: "To be eligible for training under JTPA, you have to be damn near destitute." This has made it hard for the state to use JTPA funds to seek a wider mission. Once the JTPA is replaced by the Workforce Investment Act, however, the state will have more discretion—should it choose to use that discretion—to define the mission more broadly.

CURRENT STRENGTHS

It is emblematic of the troubles the WIA effort faces nationally to acknowledge that while the Massachusetts system has many weaknesses, it is thought of by many as one of the nation's better workforce development systems. The system has at least four key strengths upon which to build future efforts:

Statewide Coverage

To a greater extent than many other states, Massachusetts has built a public job training system that provides its services on a geographically universal basis. Simply put, they extend into every corner of the state. This is not to say that there is a full and even geographic distribution of good jobs across the state. There is a lot of geographic variation in the types of jobs that are open to people after they've completed training. And the variation has led to corresponding variation in the kinds of jobs for which training is realistic. Thus, there are jobs in the coastal economy that aren't as common in the inland economy, and this difference is reflected in the occupational focus of the training programs in such parts of the state. But the system *does* deliver services everywhere.

Diversity of Providers

Unlike the situation in many other states, there is a diversity of job training providers in Massachusetts. Community-based organizations, proprietary schools, and community colleges (public and private) each carry out a significant portion of the job training done here. In some other states, a single type of provider—usually the community college system—dominates job training. There are advantages to this pattern, especially if (as is the case in some states) the dominant type of provider is well-funded and broadly effective. However, a community college monopoly, like any monopoly, can retard change and diminish responsiveness. A diversity of providers, at least in principle, can foster competition and innovation.

Enclaves of Excellence

Some specific programs and individual institutions in Massachusetts are demonstrating notably strong performance. To cite a few examples: The statewide Rapid Response program has earned national recognition for enabling dislocated workers to move quickly into new jobs, often at similar pay levels, and often through individualized training. Middlesex Community College and Springfield Technical Community College have won national attention for their efforts to build and run employer-focused skills training efforts. The challenge here is to figure out how to raise the performance levels of all elements of the system to match that of its avowed stars.

Resident Expertise

A number of the nation's leading figures in workforce development live and work in Massachusetts, and some of them have contributed ideas and talent to the state's public job training system. Their presence gives Massachusetts close and early access to a useful body of experience and advice.

RECENT ADVANCES

In the last few years, state government has made at least three important advances that should improve the earning power of the Commonwealth's workers, especially those who otherwise would be at high risk of being left behind.

Easing the Tuition Burden

The state recently capped what students must now contribute to the cost of tuition at the state's 15 public community colleges at $500 a year for a full-time course load, provided a student's family income is less than $80,000. (The number of such students whose family income exceeds this limit is very small.) Moreover, for students with family incomes of $36,000 or less, the full cost of tuition is now covered. These changes obviously widen access to an important source of education and training for students who earn academic degrees and then go on to four-year

schools, for those who earn Associate's degrees, and for those who earn post-secondary vocational certificates. In fact, there is circumstantial evidence that the new financial aid policy is having a positive effect on enrollment. Enrollment increases have recently been documented at several campuses since the policy's inception—a surprising development, since there are so many job opportunities competing for students' time.

Incumbent Worker Training

Just a year ago, as the previous section related, Massachusetts's public investment in employer-focused training ranked it next to last among the 47 states that fund such training. This year, because of the creation of the Workforce Training Fund, the state is moving higher on the list. Not all incumbent workers are members of the working poor, but all of the working poor are incumbent workers. So the creation of the fund is a valuable step in widening the focus of the state's training efforts.

Adult Basic Education

The demand for Adult Basic Education and English for Speakers of Other Languages (ESOL) opportunities has been growing in recent years. Long wait-lists, particularly in major urban centers, have kept many applicants waiting for years for the chance to attend one of these classes. In recent years, the state has significantly boosted funding for these efforts, increasing both the quality and quantity of these educational opportunities. Waiting lists continue to be too long, as expanded classes have generated additional interest in these opportunities. But these improvements, in both funding support and program quality, have made a significant contribution to our state's skill-building efforts.[1]

The substance of these advances has been broadly sound. Moreover, given the recent pattern of JTPA funding for Massachusetts, the spending decisions behind these advances were especially well-timed. The Commonwealth's share of JTPA money came to around $70 million in FY 93. It was only $35 million in the fiscal year that ended this summer. One reason for the drop has been budget pressure in Washington, coupled with doubts about the payoff to JTPA programs. But the main factor is the formula that is used by Washington to divide a given year's JTPA money among the states. The formula depends in part on a state's level of unemployment: The lower the rates, the less money the state gets. As jobless rates in Massachusetts have fallen, so has the state's share of JTPA funds.

Given JTPA's explicit priorities, the formula makes some sense. If the main goal is to help the unemployed and people with major barriers in the workplace find some sort of job, then a drop in the number of jobless implies a corresponding decline in a state's need for funding. Massachusetts still has jobless people, of course. And it has a much larger number of the working poor. But these groups do not have a strong claim on training money from Washington. So as the flow of federal money has slackened, the state has offset some of this loss with the funding it has put behind these recent advances. The money for the change in tuition, and the added money for Adult Basic Education, come from general revenues. The incumbent worker fund is paid for through unemployment insurance.[2]

Yet however welcome these advances may be, and however laudable the individual and institutional initiatives that brought them about, their luster is dimmed by a stark overarching condition: The Commonwealth's public job training system is not really a "system" in any meaningful sense.

DIVIDED AND DISPIRITED

We have been using the words "job training system" as a term of convenience to denote the collection of Massachusetts organizations responsible for publicly-funded workforce development efforts. At this point, however, we must warn that the term is misleading. The institutions involved in job training in the Commonwealth do not constitute a "system," at least not as the term is conventionally understood—as a set of connected entities and coherent procedures, acting in concert to accomplish a common purpose. This observation is not simply a charge of disorganization (though there is some of that). It is a more complicated commentary on the status of a tangled network that has developed over time in response to mandates and resources from federal, state, and local governments. This history has left workforce development in Massachusetts divided and dispirited, operating well short of what its advantages imply, and what its mandate requires.

Divided: Pieces of the Puzzle

Most people, if asked to contemplate a school system, not unreasonably think about schools. (The typical district also includes a superintendent's office and other administrative apparatus, to be sure, but these are seldom prominent in the average citizen's perspec-

[1] ABE and ESOL are the topics of a separate MassINC study due out later this year.

[2] This is a source that offsets the cycle of JTPA funding. When the state economy is at a peak in the business cycle, and jobless levels are low, and the state consequently loses JTPA funds, its high level of employment is adding money to its unemployment insurance fund.

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tive.) If you think of the public college system, you think of its campuses. (Though it also includes some administrative entities.) Thus, if you see the term 'job training system,' you might assume it denotes a set of organizations that train people for jobs. But this is not what these organizations do. With a single possible exception, none of the major institutions in the job training system are primarily concerned with delivering job training. Their work primarily concerns governance, funding, and administration. The training is mostly done by separate providers. These training providers rely on the system, have stakes in its decisions, and have some voice in how it operates. But they stand largely outside of it.

The REB staff is supposed to understand the local labor market well enough to be able to identify bottlenecks on both the demand and supply side...This is a tall order.

So the "training system" doesn't do much training. Nor, as noted, is it exactly a system. Some of the organizations that stand beneath this verbal umbrella are linked to each other by lines on an organization chart. But this doesn't mean that the level of coordination between them is high. And some of the organizations under the umbrella aren't even tied to each other by lines on a chart. In the absence of formal ties, they could, of course, be linked by informal ties, or by market forces. Such ties and relationships do exist, but for the most part they are not very strong and not very coherent. What we see is a scatter of organizations devoted to important work and mostly staffed by people of good will, but handicapped by a fragmented and ambiguous structure of accountability.

The following section maps the general organizational structure of the Commonwealth's public job training efforts, including the basic demarcation between a set of state-level agencies headquartered in Boston, and group of regional organizations (each of which operates with a complex mix of local, state, and federal resources and authority.

The Regions

For the purposes of planning and funding job training, Massachusetts is divided into 16 regions. Each region is intended to correspond to a local labor market, with its own distinctive demographic and economic characteristics. The details of how the system operates at the regional level are somewhat tedious. But since these sixteen regions are where the intergovernmental apparatus of job training policy intersects with real-life workers and businesses, these details require some attention.

In each region, one local office-holder has been designated as the Lead Elected Official, conventionally referred to as "LEO". This is usually the Mayor of the region's largest city. While the latest federal legislation dilutes the mayors' influence somewhat-and while they have had far less autonomy since 1982 than they enjoyed under CETA-the mayors remain major players. The LEO appoints the members of the Regional Employment Board, or REB.[3] The REB is a citizen advisory panel that exercises considerable influence over job training operations within its region. In order to ensure a strong business voice in workforce development, the federal government has required since the early 1980s that the chair of the REB be from the private sector. The board chair in Boston is Cathy Minehan, who heads the Boston Federal Reserve; in other regions the chair may be a prominent banker, business executive, or entrepreneur.[4] For the same reason (and also by law) more than half of the members of the board must represent the private sector. This requirement, established under JTPA, is retained in WIA. Some of the other seats on the board are allocated to representatives of labor unions, community colleges, training vendors, and others. The role of the REB is to set and oversee a job training strategy for its region. The typical REB has a full-time executive director; the size of the rest of its staff varies considerably across the regions.

The REB staff is supposed to understand the local labor market well enough to be able to identify bottlenecks on both the demand and supply side, and target public resources to ease those constraints. This is a tall order. To succeed at this task, the staff would need reliable, detailed, and up-to-date information about the local workforce and local businesses. It would need the sophistication to interpret this data and anticipate major changes. And it would also need the kind of intuitive feel for the labor market that arises from face-to-face dealings with employers, workers, and such labor market intermediaries as unions and training providers. The REB staff is expected to play a guiding role in helping employers to assess their training needs and then organize themselves to meet them. Similarly, it is expected to pull institutions together to

[3] The Regional Employment Boards are to be replaced by local Workforce Investment Boards under the new federal legislation. The REB is also the successor to an earlier body, the Private Industry Council. A PIC had the power to influence only JTPA funds. Anticipating the consolidation theme of national training policy, Massachusetts chose to turn its PICs into Regional Employment Boards, and give its REBs added power to influence some funds beyond JTPA. In Boston the regional governance board still calls itself a Private Industry Council, and many training experts-exhausted by the shifting terminology-still refer to local governing boards as PICs.

[4] For a list of REB chairs, see http://www.state.ma.us/massjobs/chairs.htm.

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create training consortia, establish career paths and ladders for workers, and counsel training providers on fields of emerging job growth. The REB's role, in short, is to steadily encourage and support what might be called local labor market diplomacy: the building of bridges for negotiation and joint action by the demand side and the supply side. Some REB's fulfill this role more completely than others; none have the capacity to meet every ambition the role implies.

...a major theme in training reform nationwide has been to consolidate services into more accessible and customer-friendly centers. Most states have gone some distance down this path and Massachusetts started earlier than most.

The Mayor or other LEO also exercises influence over a regional organization called the "SDA". This originally referred to the geographic "service delivery area" covered by a region, but has gained a different meaning and drifted away from any literal reference to the acronym. The SDA is essentially the regional administrative entity for the job training system. Typically, the organization is an existing agency of the government of the LEO's city, and doubles as the SDA. In Boston, for example, Mayor Thomas Menino is the Lead Elected Official, and the Economic Development and Industrial Commission, an agency of Boston city government, acts as the region's SDA.

In principle, there is a clean distinction between the role of the REB staff and the role of the SDA. The role of the REB staff is to help the citizen board to set regional job training policy. The role of the SDA is to implement the policy by handling varied administrative tasks, such as disbursing funds to training providers and keeping track of their compliance. The SDA is normally a public-sector organization; the REB staff is a more complicated hybrid.

In practice, however, the division of authority between REBs and SDAs is not sharply marked, and there is ample room for conflict. A REB needs staff and other resources in order to play its role. But state funds for the REBs has been quite limited. This can prompt the REBs to seek some of the funds in the SDA's allotment for administrative tasks. If the SDA loses such funds, the loss will be felt by one of the Mayor's agencies. "In virtually all [regions]," a former state official says, "there is a cold war" and, in several, "a shooting war between SDAs and REBs." Since local officials generally have more direct control over the SDA than over the REB, there is an incentive for the LEO to name people to the REB who will defer to the SDA. Other members of the REB, particularly if they live and work outside the LEO's city, may oppose policies or practices that are geared too closely to the agenda of the local organization designated as the SDA. Thus, the division between the two institutions can become a division within the REB.

To make matters even more complicated, four of the regions—Hampden County, Metro-North, Boston, and Greater Brockton—are also served by One-Stop Career Centers. As previous sections observed, a major theme in training reform nationwide has been to consolidate services into more accessible and customer-friendly centers. Most states have gone some distance down this path, and Massachusetts started earlier than most. (As detailed below, however, the road has not been a smooth one.) At a one-stop, actual or prospective clients can seek a range of pre-employment services including help in designing a job search, assessment of their current skills, and advice on preparing a resume. As one of its services, a one-stop can refer a person to a training program, but it doesn't provide the training itself.

The other regions don't yet have One-Stop Career Centers. In these cases, services are still offered by local offices of the Division of Employment and Training or other organizations (including the agency designated as the SDA.) The Workforce Investment Act makes one-stops mandatory, instead of optional, and in the transition to WIA the Commonwealth needs to extend the one-stop concept to the rest of its regions.

It is customary to speak of the regional triads—LEO, REB, SDA—as parts of the state system. There is a basis for doing so. They were created by the state, acting on its own or as the agent of the national government. The triad pattern is replicated in each region across the state. And state agencies can influence the behavior of the triads by offering them incentives or monitoring some of their activities. But to speak of them as parts of the state system does not mean that the triads report up to a state agency or are broadly accountable to one. They aren't. In large part, they are extensions of the political authority of their regions' Lead Elected Officials.

[1] The state's contribution to the funding of Regional Employment Boards in FY99 was $4.5 million. Of this, $3.5 million went to three of the 16 REBs: Boston, Metro North, and Hamden. (These three, along with Brockton, are the REBs that have already implemented One-Stop Career Centers.) The other 13 REBs split the remaining million. This pattern is viewed as a sign of the political power of the three favored regions.

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In sum, workforce development efforts in the Commonwealth are prone to divisions both *among* the regions and *within* a region. At the same time—and at least as significantly—there are chronic occasions for division between the regions and the various statewide public agencies involved with workforce development. Since the administrative headquarters of these public agencies are located in the state's capital city, front-line training people in the regions conventionally refer to these agencies with the collective shorthand term of "Boston."

Statewide Agencies

The lead state agency for job training is now the Department of Labor and Workforce Development. This is a young, small Department, created in 1996, and staffed by a handful of professionals. Labor and Workforce Development oversees several functions, including those performed by two entities that are older and larger than it is, and very different from each other.

One is the Corporation for Business, Work, and Learning.[6] Its name and current configuration are only a few years old, but it was built on the foundation of older programs, such as the Industrial Services Program and Bay State Skills. Strictly speaking, CBWL isn't a state agency, but a quasi-public corporation. As such, it has successfully pursued foundation funds as well as public funds. It deploys these resources to run the Rapid Response program for dislocated workers, and a turnaround program of loans and advice for small and mid-sized businesses. It also offers a center for youth development and education, and provides technical assistance to prospective applicants to the Workforce Training Fund. CBWL has served as the lead state agency for JTPA, the conduit through which federal funds pass on their way to regional or statewide activities. It will continue to be the lead state agency for WIA funds, once they begin to flow in the state.

The other is the Division of Employment and Training.[7] DET is responsible for one of the largest financial functions of state government: The collection of Unemployment Insurance premiums, and the payment of unemployment benefits. The connection between this function and workforce development seems obvious and natural, and in Massachusetts (as in many other states) there have been ongoing efforts to integrate unemployment insurance and job training programs. DET already provides some pre-employment services. It also manages the Workforce Training Fund, discussed earlier, which is funded through a special surcharge on the unemployment insurance premiums paid by employers.

The two organizations gathered under the umbrella of the Department of Labor and Workforce Development, CBWL and DET, have different missions, different headquarters, and (not least important) radically different cultures. CBWL must be entrepreneurial, while the DET (by tradition and by duty) is a classic governmental service-delivery operation, devoted to the establishment and maintenance of predictable routines. Though the two organizations don't necessarily clash, or bog each other down, neither are they geared for smooth cooperation.

Another statewide agency is the Adult and Community Learning Services (ACLS) Division of the Massachusetts Department of Education. The Division funds and oversees Adult Basic Education (ABE), such as GED prep and language instruction. The Department of Education, despite its name, is not a conventional cabinet agency. It doesn't report directly to the Governor, but to the Board of Education, a citizen board. Its members are named by the Governor, but to staggered terms. So a majority of the board is not always responsive to a sitting governor. This was shown in Governor Cellucci's recent failure to get the board to accept his choice for commissioner of the department. Moreover, the Regional Employment Boards have no formal influence on the use of ABE funds in their regions. Thus, ACLS, while seemingly a central component of the workforce development system, is at best tenuously linked to job training organizations in Boston or the regions. The Workforce Investment Act's blithe federal imperative to coordinate human-capital development activities across the board, while hard to dispute as a goal, is a more intimidating proposition than one might expect in the Massachusetts context.

Yet another entity with statewide responsibilities is the Massachusetts Jobs Council. Its purpose has been to set an overall strategy for the various state agencies that are involved in job training. However, the MJC is in the process of being restructured. WIA calls for the Governor to establish a Workforce Investment Board

[6] For more details on CBWL, see http://www.cbwl.org/.

[7] For more details on the Division of Employment and Training, see http://www.detma.org/.

(WIB), as Governor Cellucci has done, and name its members. The new board will therefore replace the MJC as a forum for discussions of overall strategy. At the same time, however, it is likely to be less effective than the MJC was in its heyday.

The reason has nothing to do with the quality of the Board's membership or staff and everything to do with its proposed size. In the executive order creating the new board, its initial number of members is set at 65. Anyone with the slightest experience in committee meetings knows that a group of three or four people can generally get things done. A group of six to ten (working with good will on a well-defined mission) has reasonable odds for productive work. In exceptional cases a dozen people can form a well-functioning group. But no group with 65 members can be expected to coalesce into a coherent governing body for workforce development efforts in the state. It remains unclear, moreover, how the new Workforce Investment Board is to relate to the DLWD. In sum, the size of the WIB ought to be cause for concern and may very well require the Governor to organize its membership in ways that limit the risk of deadlock, and think hard about its precise mission and mandate.

The Community Colleges

We observed a few pages ago that none of the organizations in the state's training establishment, with a single possible exception, does job training itself. The exception is the community colleges. We don't rate them as a "possible" exception because it is merely a possibility that they do job training. They assuredly do. What is merely possible—that is, marginal or uncertain—is their status as an integral part of the training system.

On one hand, the community colleges are clearly separate from the job training establishment in any standard organizational chart for Massachusetts government. The 15 public community colleges are part of the state's public higher education system, which is answerable not directly to the Governor, but to the Board of Higher Education. Its members are named by the Governor, but to staggered terms. Each public college and the university also has its own board of trustees, named by the governor to staggered terms. Within the system, the prime role of community colleges is to award two-year degrees: either academic degrees that qualify a graduate to transfer to a four-year college or university, or vocational degrees that lead directly to employment. Community college officials sit on REBs, but no lines connect community colleges to DLWD, DET, or CBWL.

As a consequence of their "disconnectedness" from the rest of the system opportunities for coordination are regularly lost. For example, because community colleges lie outside the statutory mission of DLWD, they have not been given a seat on the DLWD committee that has been formed to discuss the transition to the Workforce Investment Act.

On the other hand, the community colleges play a dual role, and one of those roles tilts them toward the job training establishment. Their duality is prescribed by Massachusetts law, and was aptly described in *Closing the Gap:* "For financial purposes, each college is...two institutions. The first institution consists of the regular, day-time, for-credit courses and is supported in large part (but by no means entirely) by the state appropriation...The second institution is self-supporting and must make provision to pay not only its direct program costs but also its share of administration and campus maintenance costs..."[1]

It is the second institution that carries out much of the job training done by community colleges, and especially the employer-focused training. So while in practical terms a great deal of the skill-building capacity that exists in Massachusetts resides in the community colleges, they have only loose institutional links to the job training system. The colleges confront restrictions on the use of public funds for most employer-focussed training. Some of the colleges nonetheless try hard to offer such training and scramble to cover their costs. Others try less hard. "It's hit or miss," says a former continuing education director, "If the president is a hard charger, or there's a hard-charger on the staff, they will sit down with local businesses and see what might be done. But there isn't any infrastructure campus-by-campus that's in place and working steadily over time to train incumbent workers."

The situation has generated noticeable complaints from area employers and has even led to business support for change. For example, legislation has been filed that would create performance-based budget incentives to expand "the second institution" within the

[1] *Closing the Gap: Raising Skills to Raise Wages*, The Massachusetts Institute for a New Commonwealth, November 1997, pages 80-81.

community colleges (including a bill co-sponsored by MassINC and the Greater Boston Chamber of Commerce, with support from the Associated Industries of Massachusetts). The Board of Higher Education has also taken recent action to create a system of performance-based appropriations that will reward campuses in the future for expanding their training for incumbent workers. Such incentives notwithstanding, Massachusetts is a long way from ending the fiscal duality of its community colleges.

Nor have the community colleges, as a group, embraced the mission of workforce training and lifelong learning.

Nor have the community colleges, as a group, embraced the mission of workforce training and lifelong learning. There are undeniable exceptions to the general pattern, as entrepreneurial officials like Andrew Scibelli, the president of Springfield Technical Community College, improvise creative and effective ways to deploy community-college resources to the mission of building worker skills. But in general, we see a pattern of symmetrical neglect: Community colleges are the neglected stepchild of the workforce development establishment. And workforce development is the neglected stepchild within the community-college system.

...workforce development is the neglected stepchild within the community-college system.

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In sum, the divided organizations that make up the Commonwealth's job training establishment can only by the most generous and imprecise definition be called a system. The regions are held back by a shortage of staff and by conflicts between REBs and SDAs. The Boston-based institutions involved in workforce policy were not designed to work together on a common mission, so it is not surprising that they often fail to do so. The community colleges, for all their potential, remain a marginal force. The Workforce Investment Board may prove to be at once too fragmented and too unwieldy to set a coherent strategy for the job training establishment as it currently exists, and may not be able to forge this scatter of organizations into a genuine workforce development system.

Dispirited: The One-Stop Incident

If the structure of the state's job training establishment is divided, its mood is dispirited. Structural divisions are the cumulative effects of years of bureaucratic and political evolution. But the low morale that plagues the system can be traced largely (but not solely) to the impact of a single episode: the fight within the job training establishment over the competitive model for One-Stop Career Centers. This fight pit the Mass Jobs Council against an array of opponents in both the regions and in state agency headquarters in Boston.

The Job Training Partnership Act of 1982 called on states to create two kinds of policy boards: private industry councils for each service-delivery area (as discussed in Section Three) and, for the state as a whole, a jobs coordinating council. After the boards had been in place for much of the 1980s, Massachusetts was among the first states to upgrade each board, chiefly by extending the scope of its influence. Until then, each board's influence was limited to activities funded by JTPA. It was now extended to some job training activities beyond those funded by JTPA. The extension was accompanied by a name change. The PICs became Regional Employment Boards. The statewide council became the Massachusetts Jobs Council.

The Massachusetts Jobs Council gained a degree of national recognition for its efforts to integrate a scattered array of training programs during the early 1990s. This array included the training directed not only by the regional and Boston organizations that are identified with JTPA, but also by several other public organizations that direct or do job training, such as the Rehabilitation Commission and the welfare department.

This may sound obvious, and not particularly bold. But it was a clear departure from the prevailing pattern in the rest of the country, and in Massachusetts's recent past, and represented a real step toward the creation of a system. The Council brought a range of such organizations to the table to discuss common problems and prospects of building a shared strategy. While its formal powers were limited, it used its jawbone well.

In the early 1990s the Council reported directly to Governor William Weld, with Lieutenant Governor Paul Cellucci as its co-chair. The Lieutenant Governor attended meetings and played an active role in discussions. He was a friend and ally of its executive director. The state's jobless rate was high, and training was a priority. Public agencies that might otherwise have

resisted the MJC paid it deference. This productive and comfortable role was disrupted, ironically, by the Council's zeal in advancing its distinctive agenda. Trouble began when this policy board abruptly took on an operational role—the establishment of a network of One-Stop Career Centers.

This crusade had its origins in a compelling idea. As earlier pages have sought to show, the Commonwealth's job training establishment is complex, divided, and confusing. If an employer wants to do some hiring, or arrange for job training, whom does it call? The SDA? The REB? The local office of DET? The local welfare office? The local community college? The same questions applied to a prospective training client, but to a lesser degree. (Though it might be hard for a prospect to find the right organization, the organizations, because they conducted outreach efforts, might find the prospect. But there is notably little outreach to employers.) Gradually—in Massachusetts as elsewhere—low-level frustration with the high transactions costs of dealing with the job training system inspired calls for the creation of a simpler, less forbidding, more user-friendly form of access. The goal came to be summarized as "one-stop shopping" for employment and training services. Eventually, reformers envisaged, separate programs and funding streams would be formally consolidated. Even before this occurred, however, the clutter could be hidden from the view of employers, job-seekers, and prospective trainees. Those seeking help could gain access at a single center with "no wrong door," and would be steered painlessly to the right package of services.

If an employer wants to do some hiring, or arrange for job training, whom does it call? The SDA? The REB? The local office of DET? The local welfare office? The local community college?

In 1993, the MJC proposed implementation of such a reform to representatives of a wide range of training organizations. At the time, say some of those who were at the table, there were at least two different conceptions of what "one-stop" centers would entail. One group saw it broadly, as the kickoff for a campaign of deep consolidation leading to an integrated workforce development system. The other group viewed the notion more narrowly—not systematic integration, but engineering more convenient access to what would remain separate programs.

Before these two conceptions could be clarified and reconciled—indeed, before it was even apparent that different groups meant different things by "One-Stop Career Center"—the MJC stepped up the pace of the restructuring campaign, in response to a sudden opportunity for funds to test the one-stop idea. There was a compelling reason for the MJC's haste. The Employment and Training Administration of the U.S. Department of Labor was holding a competition for one-stop pilot projects. States who could quickly draw up plausible plans would get early financing and a head start on reform. And the deadline was looming. Given high stakes and a tight schedule, the MJC chose to expedite its development of the idea by narrowing the scope of the consultations. As part of its effort to move faster, says one of those who'd been at the table, "it moved [its work] behind closed doors."

The development of the Commonwealth's one-stop initiative was now focused on winning the federal grant. This effort was driven by MJC staff, members of its executive committee, and outside consultants. There was, to be sure, an advisory group of leading Massachusetts job training officials. But a number of the groups who had taken part in the earlier discussions, and who felt themselves to be stakeholders in the Commonwealth's job training establishment, were not represented on this advisory panel. Thus they had no direct voice in debates over how this appealing general idea—the creation of user-friendly access—would be transformed into concrete plans for institutional change.

Massachusetts officials had cause for confidence in their chances for funding as a one-stop vanguard state, if they assembled a credible blueprint in time. David Osborne, a well-known expert on public-sector reform and an advisor to Governor Weld, was a member of the MJC's executive committee. Osborne's best-known book was called *Reinventing Government*. Both the title and the theme had been embraced by the Clinton Administration, and Osborne was known to be influential within the Administration. Moreover, a few years earlier he had written a major essay with Douglas Ross, the U.S. Assistant Secretary of Labor in charge of the Employment and Training Administration. This was not simply a personal connection; Osborne and Ross had collaborated to develop the very same training reform ideas—consolidation, customer focus, competition, and the suppression of needless bureaucracy—that the one-stop initiative was meant to embody.

With Osborne helping to shape the Commonwealth's plan, there was every reason to expect that it would be in synch with the Labor Department's priorities.

At the time, the Democrats controlled Congress. Both of the state's U.S. Senators supported the MJC's proposal, and the senior Senator, Edward Kennedy, chaired the Senate Labor Committee. The proposal was made by a Republican Administration to a Democratic Administration, so support for it was bipartisan. State officials were thus gratified, but hardly surprised, when Senator Kennedy's office announced late in 1994 that the Commonwealth had won an $11 million federal grant to pilot the one-stop idea.

Testing the proposition that competition could improve customer service was one of the goals of the pilot program.

The three-year grant would pay part of the costs of establishing One-Stop Career Centers in twelve regions. State government was expected to allocate its own funds to the effort, and the first One-Stop Career Center was to open on January 1, 1996. The grant also called for using a competitive model to create and run the one-stops. Testing the proposition that competition could improve customer service was one of the goals of the pilot program. In this model, competition meant at least three things. First, not all of the 16 regions would be allowed to create one-stops. The regions would have to compete with each other to win the funds to do so. Second, within a region that had won the funds, the operator of a given one-stop would be chosen by competitive bidding. And third, each of the 12 regions were to establish at least two career centers, who would compete with each other to deliver high-quality, accessible services to workers and employers.

Although the MJC had been quick to write the proposal, it was slower to act on it. Recall that the MJC was essentially a policy board, with a very small staff. It was not experienced in street-level operations, or equipped for the role. The ideal would have been for the MJC to delegate the implementation of the $11 million grant to some other organization better set up for operations. But because of the divided nature of the job training establishment, no organization was a clear choice for the role. With no better options in sight, the MJC decided to take the lead in implementation itself.

The difficulty of starting from scratch in an operational role became evident. It took the MJC six months to hire an executive director for the one-stop initiative. Shortly thereafter, the outside consultants who had helped shape the proposal were obliged to turn to other projects. The operations director for the one-stops didn't begin until July of 1995, just six months before the first center was scheduled to open its doors. At this point, recalls a veteran of the initiative, "We had no office space, dozens of loose ends, all sorts of policies and procedures to establish, a lot of constituencies that were puzzled—and we needed to get a center open by January." The one-stop team began to press hard on a couple of fronts.

First, it put out a request-for-proposals to the sixteen Regional Employment Boards, inviting them to apply for funds to create one-stops. The criteria for awarding these funds, the MJC specified, would be the same as the Commonwealth had used in its proposal to the Labor Department. Thus the creation of one-stops in a region should follow the competitive model. Indeed, a region would not be eligible for one-stop money unless its REB and SDA were organizationally and fiscally separate enterprises. This separation had occurred in a few regions, but not in others. Moreover, even if the SDA—the local entity charged with managing job training under JTPA—had a track record of providing some of the services the one-stop would offer, it would not automatically win the one-stop franchise. If a region sought a one-stop operator, its SDA was free to bid to become one. But it would have to compete with other bidders, which could include other agencies, or community colleges, or non-profit organizations, or private firms—even firms from outside the state.

Twelve REBs asked MJC to approve funding for one-stops. Four were given immediate approval to go on to the next step: Choosing operators for their one-stops through competitive bidding. In three of them, a separation of REB and SDA had already occurred: Boston, Hampden County, and Metro North (Cambridge and points to its north and west). In the fourth, Berkshire County, a separation had begun.

The other eight requests for funding were from regions where REBs and SDAs hadn't been separated. In their applications, some of these regions took issue with a crucial detail of the MJC one-stop plan. The local agencies serving as the SDA in these regions were

already offering job services. Why not simply designate the SDA's as the one-stops, these regions suggested, and save the bother and bad feelings associated with competitive bidding? Such a suggestion is entirely understandable, from the perspective of the regional training officials. But it implicitly dismissed a central theme of the MJC's reform proposal. The tensions inherent in implementing the plan were already becoming manifest.

...the window of opportunity for constructive negotiation proved too narrow and fleeting.

Tensions also appeared, not surprisingly, on the budgetary front. The MJC envisioned yearly payments of $1.9 million per one-stop. During the three-year life of its federal grant, it was to finance its payments by using a combination of state money and the federal grant money. So, on a second front, the MJC made the rounds of agency offices in Boston to ask members of the training establishment to add money to its one-stop fund. Typically, the one-stop team told an agency that it had estimated that X per cent of the agency's budget goes to job-related services. These services will now be offered by one-stop centers, said the one-stop representative. Therefore, the representative concluded, we would like you to allocate to the one-stops a proportional share of your operating budget.

On the surface, the one-stop initiative appeared to be strong. The MJC had formed a committee to guide the initiative, including prominent people from the regions. As the one-stop team took many of its key steps, it did so with the explicit approval of this committee, and often the MJC itself. Beneath the surface, however, powerful opposition to the competitive model was brewing. The local agencies designated as SDAs increasingly saw the new initiative as a grave threat. It could force them to dissolve comfortable and long-established links with the REBs. They could also—at least in principle—lose out in competitive bidding to operate the one-stops. If this occurred, they could find themselves cut out of traditional service-delivery responsibilities, with traumatic consequences for funding, status, and careers.

Anxieties among the statewide agencies involved in workforce programs mirrored those in the regions. The one-stop initiative suddenly seemed to be making a major raid on their operating budgets. Moreover, these agencies felt some understandable confusion about the scope of services the one-stop centers were supposed to provide. On the one hand, the MJC's one-stop team was asking each agency for an amount of money equal to what the agency was spending on job-related services—a broad category that included both training and pre-employment services. But the blueprint for the one-stops appeared to call for the centers themselves to provide only pre-employment services. What would become then of the training dollars, and what would ensure that they would continue to be spent in fulfillment of the agency's mission? In some agencies, spending priorities were set by statute. Once the money was in the hands of the one-stop, would these priorities continue to be honored?

Within these agencies, there were other questions as well: What would become of an agency's employees who were responsible for providing its job services? Would they be re-assigned to a one-stop? If so, what form would the reassignment take? Would they remain agency employees, but get a new reporting line to the one-stop? Or would the one-stop become their new employer? And if the one-stop was to be their new employer, and the sponsor of the one-stop was a private firm, would these state employees remain state employees or would their employment be privatized? In at least one state agency, the public employee union which represented its workers was also interested in these questions.

All of these were valid questions with problematic answers. Yet it's hard to paint any of them as "deal breakers" impossible to work out through good faith negotiations. But the window of opportunity for constructive negotiation proved too narrow and fleeting.

Resistance soon emerged. The one-stop team asked statewide agencies and the Legislature for a total of $8 million for the first year of the initiative. But it got less than one million. This was at odds with the original pledge in the grant application to the Department of Labor, and DOL pressed the team to line up more state money. Even if the federal government would agree to put up with a lower state contribution, the leaner budget meant that the one-stop team had to contemplate cutting its yearly payments to only $1.2 million per one-stop. Four regions had already launched competitions to pick one-stop operators based on the assumption that $1.9 million would be avail-

able for each center. The prospect of a funding shortfall approaching 40 percent raised anxieties in these regions. In other regions, discussions had begun about separating the REB from the SDA in order to qualify for one-stop funding. The extra money seemed like a big enough prize to make the political and managerial pain of reorganization worth considering. With less state money, and hence shrunken one-stop budgets, these calculations shifted in the *status quo's* favor.

The one-stop episode reached a turning point with the Berkshire County region's competition for a One-Stop Career Center operator. The winner was not the Berkshire County SDA—which had been running some of the services the one-stop would deliver—but a private company from out of state called ETI. (The same vendor had been chosen shortly before to operate one of the two one-stop centers in Hampden County.)

The word spread almost instantly through the Massachusetts job training community that competition could be serious business. SDAs that were considering separation from their REBs, to conform to the one-stop grant criteria, faced vivid evidence that the worst could indeed happen. They could restructure, apply for more money to carry out their old functions plus some new ones, and still lose it all. Throughout the regions, officials and employees of the organizations designated as SDAs were suddenly transformed into opponents of the one-stop initiative.

...the lessons drawn from the episode have not centered on ways to make reform more acceptable or better positioned politically.

The choice of ETI also crystallized the opposition in the statewide agencies by both managers and front-line workers. To them, the ETI choice was clear evidence that the one-stop team was taking the path that confirmed their gravest doubts. In both the regions and the statewide agencies there were now objections to the one-stop initiative driven by fear of its political ramifications and by doubts about its policy merits.

A measure was filed in the House of Representatives to block the establishment of any new one-stop centers pending the resolution of questions about their financing, and especially their claims on the budgets of state agencies. The Senate backed such a measure. It was reflected in the state budget for fiscal year 1997. Governor Weld vetoed the provision, and the one-stop initiative survived—but only barely. Given the Legislature's strong message, the Weld Administration regrouped and reconsidered it's high-stakes, high-visibility approach. As a result, the MJC's direct reporting line to the Governor was eliminated. And Department of Labor and Workforce Development, now installed above MJC, took over responsibility for the one-stop initiative.

In the spring of 1997, DLWD and other stakeholders reached an agreement: The one-stop initiative would go forward. But one key element of the competitive model—open competition to choose one-stop operators—would no longer be required. Regions that had already used competitive bidding could retain the operators chosen through competition. The other regions were also free to use competitive bidding, but could also opt for a less disruptive approach known as the "collaborative model." In this model, there is no competitive bidding. The SDA can be designated as the one-stop operator. This role can be shared with other organizations, such as the local office of the Department of Employment and Training. The degree of collaboration may vary. In some cases, the services of different entities are offered side-by-side, rather like a food court for employment services. In other cases, the entities that share the space also cooperate actively with each other.

The one-stop episode is viewed within the training community as a cautionary tale—and not just by those on its losing end. Who won and who lost are vital elements in it, of course. But a theme of nearly equal importance is the dramatic reversal of fortune suffered by the proponents of reform. In retrospect, one can spot strategic and tactical shortcomings in this effort to use a new federal program as the lever to transform part of the Commonwealth's workforce system. But the lessons drawn from the episode have not centered on ways to make reform more acceptable or better positioned politically.

To insiders, the main lesson has been "keep your head down." The typical insider's view (which is not without justification) is that the Commonwealth's job training efforts had been pretty good even before this grand effort at reform—better than in most states by any measure, and in some cases the best in the country. This view—which sees the system through the lens of

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the old adage, "if it ain't broke, don't fix it"—explains the widespread resentment with the restructuring.

To many ambitious reformers, the main lesson for the future has been "politics beats policy." Their view (which also is not without justification) is that an appropriately sweeping workforce development agenda—which will engage the commitment and capacity of the private sector, and help low-wage workers as well as the jobless—requires more than the old status quo can deliver. This perspective helps to explain the reformers' exasperation at what they view as the Weld Administration's failure to stay the course with the one-stop campaign.

The Steering Committee has articulated a sensible set of objectives...

For both camps, the legacy of the one-stop episode is less than auspicious for the Commonwealth's implementation of the new Workforce Investment Act. Many insiders assume that WIA reflects nothing more than the policy equivalent of the "flavor of the month," and will fade away, like other noisy reform campaigns, to leave the system essentially the same as it has been for decades. For reformers, the resistance to competition displayed by the bureaucratic actors threatened by the early one-stops serves as a depressing reminder of how difficult it is to change the behavior of large organizations and how hard they will fight to defend their turf. And the Administration's inability or unwillingness to parry this opposition is taken as a bad omen for future reforms.

...Beyond these broad priorities, the implementation of WIA requires the state to develop answers to a number of specific questions.

IMPLEMENTING THE WORKFORCE INVESTMENT ACT

On June 30, the Job Training Partnership Act dies. The next day, the Workforce Investment Act goes into effect. The federal government requires each state to make a set of decisions to adjust to the terms of the new act. Some of the states have made those decisions already, but Massachusetts and 39 others have deferred most of the big choices until JTPA's expiration.

Some decisions have been made. The Governor has established a Workforce Investment Board, as WIA requires, though we have suggested that this board is too large to be very effective. The Governor has also named the Department of Labor and Workforce Development to act as the lead agency for implementing WIA. In turn, DLWD has convened a WIA Steering Committee to help it work through many of the other steps that the state must take in order to make its transition to the terms of the Workforce Investment Act.*

The Steering Committee has articulated a sensible set of objectives. The first stated priority is to make job training and employment services more comprehensible and accessible. "We have to draw a better road map for our users," one member has said. The second goal is to use the limited WIA money as efficiently as possible by getting it to those who need it the most. This goal highlights a tension in WIA discussed in Section Three. Unlike JTPA, the new federal program calls for "universal service," but provides no expansion of resources to match the expanded mission. A third goal is to improve efforts to assemble and disseminate information on labor markets and training providers. DET is leading the work on labor-market information projects.

Beyond these broad priorities, the implementation of WIA requires the state to develop answers to a number of specific questions: Should the geographic boundaries of the regions be changed? If so, how? WIA calls for training providers to be "certified." What should the standards be for certification? What form should the certification process take? How should authority and responsibility be divided between the state and its regions? What sorts of clients should get priority, and why? What kinds of technologies will be needed? Who will control them? Where federal funds fall short of what's needed, will the Commonwealth fill the gap? Should it? Or will system-building be scaled back?

The Committee's work on these matters, say those who have been in its discussions, is slow going. The legacy of the one-stop episode chills discussion. There is a general wariness. One member of the committee described the difficulty of overcoming the reflexive mindset that dictates: "'Don't be bold. Keep your head down. Don't put any cards on the table. Hold back.'" Many participants seem to be anxious that the Committee — and the broader job training establishment — might stumble into another debilitating battle.

* The committee also includes representatives of DET, CBTL, DOE's Division of Adult and Community Learning Services, The Department of Transitional Assistance, The Executive Office of Health and Human Services, the Massachusetts Rehabilitation Commission, the Regional Employment Board Association, and the Job Training Partnership Association.

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The one-stops themselves are unlikely to resurface as the central point of contention. The Workforce Investment Act is clear that one-stops are required. But it is equally clear—in a provision motivated by friction in Massachusetts and other pilot states—that "collaborative" one-stops are as acceptable as "competitive" one-stops. A more likely flashpoint for controversy is WIA's call for "Individual Training Accounts," usually referred to as ITAs. In more conventional (but controversial) language, these might be called simply "vouchers." This issue will be discussed at more length shortly.

Our general assessment is that the WIA implementation process in the Commonwealth is blessed with good staffing and good intentions. But there is not yet evidence of anything like the high-level commitment and resolve that will be necessary to overcome the inevitable roadblocks and withstand the inevitable controversy that serious reform efforts will entail. It is a virtual certainty that Massachusetts will submit a WIA implementation plan credible enough to keep the trickle of federal money flowing. But there are not yet signs that political leaders will seize this opportunity to commence the construction of a workforce development system that will serve the Commonwealth well in the decade to come.

In the next chapter, we will argue that the many reasons for pessimism—political friction, bureaucratic inertia, chastened reformers, and feeble federal funding—should not be allowed to shunt the WIA implementation process into a dark, neglected corner of state government. Opportunity is knocking on the Commonwealth's door and we should do everything in our power to open that door and usher in a new era of better prospects for those in the bottom half of our state's income distribution. Bureaucratic opposition to change and gun-shy reformers worried about losing another public battle should not keep us from seizing this opportunity. It may not come again for a very long time.

SECTION 7 TO BUILD A SYSTEM: PROSPECTS AND RECOMMENDATIONS

The new Workforce Investment Act presents a rare opportunity for Massachusetts to rethink its workforce development efforts and to create a "system" in fact, not just in name. But it is an opportunity, not a mandate. Mindless uniformity, imposed by federal dictate, is not a major hazard for states implementing the Workforce Investment Act. Despite the Act's vigorously reformist rhetoric, its formal imperatives are too fuzzy and the loopholes too wide to deflect a state very much from its preferred course, whether that preference be energetic change or a relabeled status quo. The new federal system permits, but it does not require, extensive integration of related but traditionally separate employment and training programs. It permits, but does not require, a customer-centered, choice-based approach. It permits, but does not require, a serious effort to build labor-market and training provider data systems. It permits, but does not require, defining "success" as equipping citizens with skills sufficient to decently support a family, instead of just placement in some sort of job.

If being forced to fit the federal mold is a bogus risk for the Commonwealth, two other risks are all too real. One is inertia (the understandable reluctance of institutions to depart very much from established ways of doing things); the other is inadequacy (the imbalance between the multiple missions bundled into the Workforce Investment Act and the organizational, financial, and political means available to pursue those missions).

The previous chapter outlined some of the reasons for the inertia currently plaguing the system. The bruising battle over the formation of One-Stop Career Centers in Massachusetts has left many in the system divided and dispirited. Politically powerful mayors and the SDA's they control have proven reluctant to open up service delivery to competition. And the speed with which the one-stop initiative lost momentum left many in the system feeling that the best thing to do in the face of this next round of reform from Washington is to just keep their head down. Yet yielding to this inertia, however tempting to those who see more

headaches than glory in job training policy, would be a quiet tragedy for hundreds of thousands of low-wage adults and for firms frustrated by skill shortages.

At the same time, insiders hesitate to sign on for root-and-branch restructuring in part because the new opportunities represented by WIA have not been matched by a commensurate increase in high-level political support or federal and state funding for this larger mission. Thus, bureaucratic inertia—one of the central challenges to overcome—is aggravated and fed by the second challenge—generating enough support to galvanize the enthusiasm of change-agents inside the bureaucracy and to encourage heightened attention and scrutiny from outside the system.

The reasons many reformers pushed hard for the one-stop initiative earlier this decade are still valid. In fact, they form many of the philosophical cornerstones of the Workforce Investment Act.

The reasons many reformers pushed hard for the one-stop initiative earlier this decade are still valid. In fact, they form many of the philosophical cornerstones of the Workforce Investment Act: a competition-driven system, focused on lifting the wages of unemployed and low-wage workers, that delivers measurable results to both customers and taxpayers. But the cautionary lessons are equally durable: Without the commitment of top public officials, the engagement of business leaders, and funding commensurate with the mission, it is unrealistic to expect public agencies to embrace large-scale, risk-laden change.

As the discussion of One-Stop Career Centers in Section Six makes clear, the Massachusetts job training establishment has already been through one round of aggressive reform this decade. That campaign left the system marginally better in a number of communities, but also left it even more wary of new ambitions originating with outsiders. While WIA started out as an ambitious attempt to provide systematic reform and new resources to this badly under-appreciated system, the final result provides the opportunity for reform, but doesn't require it. And it provides little or no additional federal funding to support an expansion of the system's reach. The next move is up to Massachusetts.

For a sense of perspective, consider this summary of the current state of affairs:

An establishment that is wary, if not cynical, of reform efforts by "politicians," because past efforts and big talk have not been backed by sustained commitment;

A business community that has begun to see the connection between public policy and their own anxieties over labor supply—but does not have either an organized group or a well-known individual spearheading efforts at reform;

A moderate Republican Governor and Administration wary of any "give-away" to institutions producing what many see as a sub-standard product;

A Democratic-led Legislature solicitous of public-worker constituencies with stakes in the status quo and anxious about how the public perceives its stewardship of state spending;

A crippling lack of performance data that leaves consumers and taxpayers no easy way to evaluate the quality of the government's efforts; and

A weak accountability system that creates little pressure for change.

Does this picture look at all familiar? It should. In its broad outlines, this scenario describes both job training today, and the Commonwealth's K-12 Education Reform effort at the start of the 1990s.

Back then, educators were skeptical that a real commitment would be made to their area after past reform efforts had failed. Business leaders were only beginning to focus on the connection between Education Reform and their own workforce needs. A Republican Governor was initially skeptical of the benefits of increased spending on education. A Democratic Legislature was wary of offending the teachers who comprised a core constituency. A weak information system made it difficult if not impossible to measure the effectiveness of public spending in this area. An even weaker accountability system created little incentive to improve performance.

A decade later, one of our state's two signature accomplishment of the last decade (along with the Big Dig) stands as our state's sustained commitment—political

and financial—to reform our public education system so that it delivers measurable and improved performance to more of its students. As the most recent MCAS results make abundantly clear, the state's K-12 system has miles to go before it delivers the performance for which we all yearn. But the state is unquestionably committed to that goal. And public discussion is now centered where it should be—on raising the performance of schools and students across the Commonwealth.

The passage of the Workforce Investment Act presents Massachusetts with a unique opportunity to create—at the adult level—a statewide effort parallel to our Education Reform effort over the last decade. That effort has seven main components: 1) intensified accountability and performance measures; 2) sustained business and labor interest; 3) an information system that allows consumers to make good choices and see what their money is paying for; 4) a commitment to serving a broad spectrum of workers, not just the unemployed; 5) a gradual but firm shift to competition and consolidation; 6) a durable commitment to adequate funding; and 7) bipartisan political leadership.

Recommendation 1: Focus on measurable performance outcomes and hold elements of the system accountable for results. The K-12 Education Reform model hinges on two interlocking features: a renewed funding commitment and a concerted push to create performance measurements and accountability mechanisms that will provide both customers and taxpayers with easy-to-understand data on the value of their investments.

The state's workforce development system must be based on similar interlocking pillars. Indeed, adult job training is an even better candidate for performance measurement than education, since the goal—raising earning power—is more straightforward. Few of the objections raised against focussed performance measurement in K-12 education apply to job training. One important difference for the state's workforce development system is that it should gauge its progress not on the basis of test scores, but by tracking the earnings of individuals who have used it. The more progress an individual makes toward reaching a level of earnings adequate to support a family, the better the workforce development system is doing. Earnings growth, rather than the conventional measure of job placement, must become the central indicator of the system's performance. Weaving the unemployment insurance program's wage records into the workforce information system, and interpreting these data with proper care will make it possible to track this indicator.

In this regard, perhaps the most disappointing feature of the Workforce Investment Act (a feature inherited from prior federal law) is a seemingly tough but actually quite shallow set of performance measures that focus on short-term job placement and give short shrift to the more challenging task of preparing people to earn a family-supporting wage. Such an orientation is at odds with Massachusetts's current challenges. The past few decades of training policy have shown that placement is relatively easy; raising earning power is hard. The more the Commonwealth sets the scorecard in terms of placement, the less aggressively we will see real reform in workforce development, and the less progress we will make in boosting earning power. A placement bias will tilt the system towards job-search services and short-term or job-specific training, and away from deeper investments in worker skills. But while it invites an undemanding placement orientation, WIA presents no bar to a state defining higher wages and family-supporting earning power as the goal of its workforce development system.[1] This is exactly what Massachusetts should do.

Recommendation 2: Encourage business and labor support and invite business and labor pressure. Since at least the early 1980s, the importance of engaging the private sector has been part of the conventional wisdom in job training policy. This bipartisan policy orthodoxy has had some real effects, not least in Massachusetts. But publicly-funded workforce development remains a marginal issue for too many in the business community. Some business organizations have developed an ongoing interest in job training; some firms have been regularly involved in REBs at the staff level. But this involvement is typically episodic, or low-level, or both.

The low profile within the private sector of workforce development in general, and the Workforce Investment Act implementation in particular, is surprising. Massachusetts business leaders have long lamented inadequate worker skills, and in recent years have complained of an acute skills shortage. Yet they have not

[1] Magnum *et al* cross this issue extensively and persuasively, and point out that while WIA requires states to use four criteria as accountability measures for the state and for WIBs—it can exercise a large degree of discretion on how it weights these criteria, and how it defines the fourth. "By placing a higher level of incentive payments on standards three and four and a lower level on standard number one, the state [can send] a clear message that education and training is desirable. By further defining what constitutes a 'recognized credential' in a way that encourages longer-term endeavors, the state can strengthen the signal...." See Garth Mangum, Stephen Mangum, Andrew Sum, James Callahan, and Neal Fogg, "A Second Chance for the Fourth Chance: A Critique of the Workforce Investment Act of 1998," Sar Levitan Center for Social Policy Studies, Monograph 99-01, Johns Hopkins University, January 1999, p. 56.

60 BEST COPY AVAILABLE

generally seen public training programs as a solution to their problem. This is in part because of the mixed performance of many such programs, and (in larger part) because the programs have been so strongly focussed on the very bottom end of the labor market. Public job training has been viewed by most businesses as a philanthropic issue, not an economic one. In principle, the Workforce Investment Act could change this. While the long-term jobless and former welfare recipients have privileged access to intensive services, WIA is meant to make the workforce development system work for a much wider range of employers and employees. Private sector perceptions have not changed much, however.

Only if prospective trainees can compare the differences in earnings outcomes among providers can they make intelligent choices as "consumers" of these services.

Enduring, high-level support from the private sector will be crucial to the success of any effort at system-building that is linked, but not limited, to WIA implementation. Only if business leaders develop a stake in the establishment of an integrated workforce development system will they bring pressure to bear that can counter the temptation to pass on the opportunity for deep reform.

The leadership of the business community has been a vital bulwark for the state's commitment to Education Reform. Business leaders like Jack Rennie and Bill Edgerly have played crucial roles in building broad-based support for key parts of the Education Reform effort. They and many others have also played a vital role in bolstering support on Beacon Hill, among both Democrats and Republicans, at a time when policy-makers are faced with difficult choices and tight budgets for many of their key projects.

Individual leaders within the business community, as well as established business organizations, have the opportunity to help create a workforce development system that delivers real value for more workers and more employers in the Commonwealth. Meeting the challenge will require the same type of vision and tenacity as the Education Reform effort required. But it, too, can lead to real changes in the lives of people across the Commonwealth. Business stands to benefit significantly (and fairly rapidly) from faster and broader access to skill-building opportunities among Massachusetts workers. It has multiple incentives—commercial, political, and civic—to get in the game.

Similarly, the labor movement should recognize and act on its own stakes in effective workforce development. A campaign of system-building for workforce development offers a prime occasion for partnership between the state's labor movement and business community. The active engagement of senior labor leaders could also help assuage the anxiety of some public-employee union members, and thus broaden the coalition for reform.

Recommendation 3: Build the nation's best workforce information system. Information is the bottleneck for workforce system reform. Only if workers have good data on the skills required by area employers can they make good choices about what kind of training to pursue. Only if employers have confidence that credentials accurately reflect skills will they come to rely on workforce public labor exchanges. Only if prospective trainees can compare the differences in earnings outcomes among providers can they make intelligent choices as "consumers" of these services. Moreover, only if the Commonwealth has rich, reliable data on the performance of providers, regional organizations, and types of training can it intelligently adjust its workforce policies in years to come. An ambitious information system is thus the prerequisite to building a workforce development system. The federal government has asserted the importance of labor-market information, but has taken only scattered steps to assemble such a system on a national scale. It is up to the states to take the lead. Massachusetts, fortunately, is extraordinarily well-positioned to do this.

As the most important short-term component of a workforce development campaign, the Governor, with support from the Legislature, should commit state resources, and solicit private resources, to create a workforce information system that is second to none in the nation—with a deadline for having the essential components in place by January 2001. This is an ambitious target. There are significant challenges in making good data on labor markets and training providers widely accessible to citizens. But the challenges are mostly financial, organizational, and political rather than technological. Appropriate hardware and software are available, or easily adaptable. The most

important source information—including administrative data held by state welfare and unemployment insurance agencies—already exists, at least for the first crucial installment of a comprehensive data system. If energized by realistic budgets and highly visible high-level commitment, a task force composed of public officials from DLWD, DET and other agencies, business experts from the communications, computing, software and consulting industries, as well as labor economists and other specialists, could accomplish a great deal in a year. We should demand no less.

Other states are scrambling, with greater or lesser degrees of strategy and commitment, to assemble data systems and thus loosen the constraints on workforce policy reform. But if Massachusetts—with its population's deep reserves of technological sophistication—can't pull this off, what state can? And if the challenge can't be overcome now, after years of flush budgets, when can it be? Beyond the direct benefits there may well be commercial opportunities for the state and its companies who set the gold standard for workforce information systems, and a strong case can be made for shared public-private financing of the investment campaign. Not least importantly, the data system should also be structured to ease evaluation, so future reform efforts can be guided by fresher and more fine-grained data than we possess today.

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Since a good data system is a prerequisite to some key elements of reform, an aggressive implementation timetable for the information system is essential. And since a good data system does not exist yet, it is important to recognize that system-building will be an ongoing campaign. Some steps, obviously, cannot be completed by the time WIA takes effect in July 2000; some cannot even be well underway by then. But a commitment to having the basics of a data system in place by January 2001 is the most crucial down payment the Commonwealth can make on a workforce development system.

Recommendation 4: Build a workforce development system that provides training opportunities to a broad spectrum of workers, not just the unemployed. The federal reform effort—at least in its early stages—aimed to expand the ambitions of workforce policy, from a tactic in anti-poverty efforts to a broader instrument for ensuring shared prosperity. At the federal level, this effort was only partly successful. The Workforce Investment Act allows states to engineer their training and employment programs to benefit a variety of low-wage workers, rather than restricting assistance to the jobless and dependent. But it does not mandate major efforts in this direction. Nor does it provide the additional resources to support this broader agenda. And the placement bias embedded in WIA encourages states to give short shrift to boosting low-wage workers' earning power. It is up to the separate states to choose how seriously to take the problems of low-wage workers in response to the new federal law.

The context for this choice is not auspicious. The states are scrambling to improve the job prospects of former welfare recipients, in response to the rigid imperatives of the 1996 Welfare Reform legislation. An economic boom is masking, for now, the long-term earnings deficit of many less skilled workers. It is thus tempting for states to pass on the opportunity to make the working poor a priority in workforce policy. For all the reasons discussed in earlier sections, and without dismissing the urgent claims of the least advantaged, it is crucial to resist this temptation. Workforce development will remain marginal and under-funded if it remains merely an aspect of anti-poverty policy. And we will miss out on our best chance to create a system that empowers more citizens to move up the ladder of economic opportunity into the middle class.

The Commonwealth confronts high-profile, high-stakes pressures to move welfare recipients into jobs. It may therefore be tempting to focus on workforce programs that emphasize job placement alone and neglect the subtler agenda of increasing long-term earning power. But job training and career services must not be narrowly understood as instruments for reducing caseloads. Job training, properly construed, has the much broader mission of human capital development. One possible—but lamentable—scenario for Welfare Reform is that large numbers of people move from the ranks of the unemployed to the ranks of the working poor—and stay there. A serious and simultaneous campaign to bolster workforce development will make this scenario less likely. Improving human-capital investment opportunities for all low-wage workers (including those that have successfully moved off the welfare

rolls) can thus be seen as an essential complement and logical follow-up to Welfare Reform. Building a system that invests in the skills of the working poor means attending to some crucial concerns that matter less when only the jobless are at issue.

First, it is essential to address low-wage workers' poverty of time as well as of money. If training is offered to them only in ways that require a lot of unpaid time, there is a limit to how many hours of such training they can actually take. This means we have to explore every avenue for partnership with employers who are willing to provide appropriate training opportunities on company time. And we have to think creatively—as the state recently did in the creation of the $18 million fund for incumbent worker training—about how to encourage companies to provide these training opportunities.

Second, policy-makers must recognize that workers generally fall into two different groups: those whose employers are willing (or can be rendered willing) to invest in them, and those whose employers will not. Expanding realistic training opportunities requires a different approach for each group. It takes more to address the time poverty of the second than of the first. Incumbent worker training is usually based in or near the workplace itself. It might also occur on paid time, or just before or after paid time. The great advantage of this type of training is that it puts less pressure on a worker's schedule. As much as possible, we should pursue policies that move more workers (and their employers) into this first category. Tactics worth exploring include targeted grant, loan, or tax-incentive programs tailored to small- and medium-sized companies.

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For the members of the second group—those whose employers have not shown a willingness to invest in them—making a living and getting some training are separate and distinct activities. They occur in different places and at different times. A useful model is to consider how graduate students at universities are typically treated. Graduate students often get two kinds of benefits at once: Tuition scholarships, so they don't have to pay for it out of pocket. And a stipend to cover living costs, so that they don't have to give up study time in order to be able to work. With major changes in what many community college students must pay for tuition, the state has begun to provide an equivalent to this free tuition model. The next logical step under the graduate student model would be a measure of access to loans or grants to free up time for training. This merits serious consideration as a significant—and admittedly expensive—extension of workforce development assistance to the working poor. The state should begin exploring potential partnerships with foundations, as well as leaders in the private sector, to fund a pilot program of these "training stipends" to support low-wage adult students while they pursue educational opportunities.

Recommendation 5: Take consolidation and customer choice seriously—but gradually. The Legislature and the Administration should develop and embrace a strategy to knit the entire workforce development system together—and not just the programs specifically slated for integration under the Workforce Investment Act. Employer-based training for incumbent workers, financial aid for post-secondary programs, remedial and basic education for adults, and other enterprises should be rendered more a system, less a scatter of separate programs.

This will take time and political capital. But several considerations suggest it will be worth the effort. So long as "job training" is walled off and secondary to other kinds of investments in human capital, the broader workforce development system will remain warped. A less important reason for integration though still a respectable one, is operational economy: Pooling administrative resources can improve the earning power bang for the education and training buck. Another reason to build a system is the need for a diversified financial base: Some of the current funding sources (like employer-mandated contributions to the Workforce Training Fund) rise with the Commonwealth's economy while others (like federal training allocations) fall. Integration can promote system-wide fiscal stability. Finding new ways to put "funding" eggs into more than one "spending" basket, while politically and managerially vexing in the short-term, will augment the system's impact and efficiency over the long haul.

At the same time, "competition" may prove as challenging as "consolidation." The Administration and

Legislature may be sorely tempted to downplay the opportunity to introduce more choice and competition into workforce development: The infrastructure is not in place, the model has some real limits, and the competitive ideal inspires skepticism (even hostility) among many insiders. (Community-based organizations in Boston and Western Massachusetts, in particular, tend to take a dim view of vouchers.). As a short-term model it has undeniable problems. But longer-term it offers tremendous advantages in efficiency, integration, and performance. The Commonwealth's leaders should take steps now that will make choice and competition progressively more central to the system, and endorse the model as the eventual goal.

The most likely scenario, in the event of a sharp and sudden shift to the voucher approach, is that CBO's would lose market share and the community colleges would gain.

If WIA's implementation centered on an abrupt and complete unleashing of competition among training providers, it could indeed pose a threat to many of the Commonwealth's community-based organizations that have prospered under JTPA. The CBO's would prefer to continue to get contracts from the state to mount class-sized training programs, rather than appeal to individual clients one at a time. The voucher approach might tilt the playing field to favor community colleges, since they already compete for students one student at a time, know how to do it, and usually have higher name recognition and bigger marketing budgets. The most likely scenario, in the event of a sharp and sudden shift to the voucher approach, is that CBO's would lose market share and the community colleges would gain.

It is tempting to respond to this scenario by asking "what's wrong with that?"

It is tempting to respond to this scenario by asking "what's wrong with that?" Isn't the whole point of accountability through competition to weed out the weak and nourish the strong? But this theoretically satisfying interpretation may well be overly simplistic. If these two kinds of providers are compared not to each other, but to the task at hand, then both groups of providers are weak. If the CBO's lost market share, they would be weakened further. If the community colleges gained it, however, it wouldn't automatically remedy their weakness. The net result could be a further enfeeblement of the state's providers. There are bad reasons for hesitation about an immediate shift to full-blown competition—providers' fears of being held to account for delivering value. But there may be good reasons as well. One is the lack of the kind of information system that would equip trainees to make good choices about which skills to acquire and the performance of alternative training providers. Another is the prospect of serious damage being done in the short-term and medium-term, in the name of the long-run goal efficiency and accountability through competition.

If the Commonwealth already had an extensive and uniformly strong network of community colleges and private training providers oriented to the needs of low-wage workers as well as the unemployed, and if a solid labor-market and training information system existed (or was well on the way to being built) the likely loss of CBO training capacity might be a price worth paying. But this does not describe Massachusetts today. A wholesale shift to choice and competition (coupled with a crash program to build an information system) may well create the right capacity eventually, as community colleges, CBO's, and other providers scramble to adapt. But we can do better. We should not declare providers immune from the imperative to demonstrate their payoff to individuals. But we should strengthen each set of providers first, before pitting them against each other in full competition. The CBO's with good track records should get technical assistance to help them to adjust to the challenge of vouchers. This will let them master the skills that have not been at a premium in contract work, but will be in a voucher-driven market. The Commonwealth can afford to buffer the transition to full competition. And it should, since the alternative is either a risky and traumatic transition or (more likely) a political stalemate leading to a relabeled status quo.

It would be perverse to let the Commonwealth's strong community-based training providers collapse by suddenly making them fight for their lives within a half-built system of customer choice. But it would be equally perverse to indefinitely limit citizens' options in order to prop up providers' cash flow. No one provider or group of providers ought to be immune from the imperative to demonstrate their payoff to individuals. There are few honorable arguments for permanent protection

from competition, but an excellent case can be made for a well-buffered transition. And a rich state can afford to help the stars among its providers adapt.

Finally, it is important to add that particular attention should also be given to the public community college system, and its status in a competitive environment. In so far as community colleges are integrated into the workforce development system, they will—and should—be exposed to competitive pressures from other types of providers within the system. At the same time, it is clear that, absent new funding incentives, larger-scale incumbent worker training at community colleges is unlikely. Until campuses are rewarded adequately for their efforts to expand their job training mission by defraying the cost of new training initiatives, uncertainty and risk will continue to stymie progress in making them a central part of a new workforce development system.

Recommendation 6: Fund the workforce development system at a level that reflects its growing importance to our state's shared prosperity. The challenge of funding the workforce development system is shared by the federal and state governments.

Workforce development is a strong candidate for the next campaign for a better future. This campaign is not simply a matter of appropriating more money.

At the federal level, our elected officials in Washington should step up their advocacy on two fronts. First, Massachusetts faces a special problem. The formula for allocating each year's WIA appropriations among the states is inherited from JTPA, despite the ostensible revisions in mission. A state's share is heavily based on unemployment rates and concentrated joblessness, which works against a state like Massachusetts more plagued by earnings shortfalls among the working poor than by pockets of high unemployment. Our leaders must be attentive then to instances where federal aid distribution formulas penalize the state unreasonably. Building legislative coalitions with other states similarly short-changed is the best route to amending existing formulas.

Second, our federal leaders should advocate for higher federal spending levels nationally for workforce development. A budget—whether a government's or a family's—reflects priorities and embodies values. The Workforce Investment Act incorporates a number of potentially promising policy changes, but it fails to provide any significant funding increase that would light a fire behind those initiatives. While the budget wars have raged in Washington (and while good times have lowered the urgency of the traditional anti-unemployment mission) funding for workforce development has mostly stagnated. Without a reliable funding increase from the federal government, states will find it difficult, if not impossible, to build the kinds of workforce development systems that can empower low-wage workers to better their circumstances.

At the state level, there is no question that Legislators and the Governor face a long list of competing demands for resources. For much of the 1990s, Massachusetts concentrated public attention, and public resources, on both traditional infrastructure (the Big Dig) and more familiar aspects of human capital (K-12 Education Reform). These are two areas where there is a compelling argument that public investment—if it is well targeted, well managed, and adequately sustained—can expand the overall size of the economic pie. Both these efforts face continuing challenges. But they are well on track, and odds are strong that the Commonwealth will be better off in the years and decades to come because of the investments we have made in transportation infrastructure and K-12 education.

Workforce development is a strong candidate for the next campaign for a better future. This campaign is not simply a matter of appropriating more money. For one thing, as the preceding pages emphasize, money alone is not enough. Moreover, the workforce development mission can be supported in part by concentrating existing streams of funding that have not been integrated in the past. There is no legal or logical barrier against engaging a wide range of programs—including those of the Department of Transitional Assistance, federal and state Adult Basic Education programs, post-secondary financial aid, and the Workforce Training Fund efforts of DET—to amplify the impact of more narrowly defined job training funds. This will not happen automatically, of course; one reason why high-level commitment is essential is that otherwise turf-consciousness and simple inertia will undercut the potential for synergy.

But even with such commitment, and serious efforts

to concentrate existing resources on the workforce-development mission, additional funding will almost surely be required. One reason for the skepticism about WIA among many job training insiders—and an abundantly understandable reason—is their suspicion that funding will fall short while demands multiply. In this scenario, resources (including public visibility and management attention, as well as budget dollars) will be spread too thinly to allow the delivery system to do anything well. Far from meeting the grand ambitions of a coordinated workforce development system, state and local operations will be crippled in their attempts to pursue their traditional agendas. This may be an honorable explanation for organizational inertia, but it is unduly pessimistic about both the possibilities for real system-building and the willingness of the Commonwealth's citizens and leaders to support a bolder agenda. Workforce development—especially in the context of serious structural reform—is sufficiently central to the Commonwealth's industrial vitality and to its hopes of restoring shared prosperity to warrant additional funding.

State government should step up to the plate with a series of targeted appropriations increases for the institutions and programs at the core of the new system. Over the next five years, the state has the chance to create a real workforce development system for the first time—and WIA provides the perfect opportunity to begin that process this summer. We are not advocating a campaign that will cost the kind of money (roughly $250 million of new money each year for seven years) that Education Reform has required. But at the same time, no one seriously believes that we can create a job training system that serves low-skilled workers well without committing serious new resources over the next five years.

Recommendation 7: Provide the bipartisan leadership vital to the effort's success. This report does not call for a scorched-earth approach to Massachusetts's employment and training programs. But existing institutions and their leaders—no fonder than anyone else is of outside pressure, and scarred by recent disputes—are generally disinclined to undertake major changes. And given the low salience of job training in good times, and the modest federal requirements for serious restructuring, the Commonwealth will waste a rare occasion for reform unless arrangements for funding, governing, and providing employment and training are examined closely and skeptically. Without tenacious political leadership, innovation is unlikely.

Tenacious political leadership is exactly what the state has received on K-12 Education Reform for most of the past seven years. We should draw lessons, and courage, from that experience. At each crucial moment, strong leadership from the Senate President, the House Speaker, the Governor, the business community, the Board of Education and many others has held the line on the state's funding commitments and kept the pressure on for raising standards and delivering improved performance.

This is not to say that every decision has been made with unanimity. There have been plenty of disputes, and there will be plenty more. But on the broad goals of funding the system in a way that brings every school up to a respectable level of support and demanding a system based on performance and accountability, there has been little meaningful dissent.

To build a workforce development system that embodies these same principles will require the same kind of sustained leadership: from policy-makers, from business and labor leaders, and from other organizations and individuals across the state. Workforce development promises to be a major part of the solution to some of the Commonwealth's most important problems: Skills shortages that strangle economic growth potential, earnings stagnation at the low end of the labor market, and growing income inequality.

If we squander this opportunity to use the Workforce Investment Act as a lever to reconstruct and reorient our workforce development system, we will be passing on an opportunity that other states are unlikely to miss. As any casual football fan know, sitting on a lead and playing a "prevent" defense often results in a comeback victory for the team that starts out behind. Massachusetts can maintain its lead in top-flight, highly adaptable labor. It can deliver the skilled hands and minds to staff our businesses, swell the ranks of taxpayers, shrink the ranks of dependents, and empower thousands more of our citizens to work their way into the broad middle class. But we can only do this by building and funding a workforce development system that goes beyond the ambitions of the past.

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